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# SELF-EMPLOYMENT FOR THE POOR: THE POTENTIAL OF MICRO-ENTERPRISE CREDIT PROGRAMS

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## HEARING

BEFORE THE

## SELECT COMMITTEE ON HUNGER
## HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, APRIL 20, 1988

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# SELF-EMPLOYMENT FOR THE POOR: THE POTENTIAL OF MICRO-ENTERPRISE CREDIT PROGRAMS

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WEDNESDAY, APRIL 20, 1988

House of Representatives,
Select Committee on Hunger,
*Washington, DC.*

The committee met, pursuant to notice, at 9:37 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland [chairman of the committee] presiding.

Members present: Representatives Penny, Patterson, Brennan, Staggers, Gilman, Smith, Upton, and Herger.

Also present: Representative Wyden.

## OPENING STATEMENT OF HON. MICKEY LELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman Leland. The committee will come to order.

Good morning everyone. I would like to welcome you to the Select Committee on Hunger's examination of micro-enterprise credit ventures in the United States and the potential that these initiatives have for assisting lower-income Americans achieve self sufficiency.

Our work with the micro-enterprise credit concept has focused largely on activities abroad. Committee research of programs such as the Grameen Bank project in Bangladesh and the Rural Development Fund in Peru have clearly demonstrated that helping the poor access capital to start small-scale businesses can be a successful means for increasing family income and improving the family standard of living.

I would be remiss if I failed to note that garnering additional capital for micro-enterprise lending has also occurred in more developed nations. In Europe, for instance, both France and Great Britain have begun experimenting with the use of transfer payments to provide capital to promote self-employment initiatives. In these countries, unemployment compensation recipients are able to collect their benefits in a lump sum for small business start-up expenses.

Recently, Congress approved a budget reconciliation bill that permits the creation of a pilot project to operate a similar program here. I am pleased that Congressman Ron Wyden, who spearheaded this effort in the House, will be joining us to discuss the new demonstration program.

Over the past few years the committee has been investigating innovative programs designed to help lower income persons attain financial independence from public aid programs, programs that would help them acquire marketable skills and secure jobs providing decent wages.

Looking at the achievements of the micro-enterprise credit programs abroad, the committee has expanded its scope of inquiry to ascertain the feasibility of replicating such programs in the United States. Obviously, poverty in the United States differs from that found in developing nations; however, poor people the world over, from Washington, DC to Dar es Salaam, Tanzania share a common plight: they lack resources which preclude their access to a decent quality of life.

Based on its research of micro-enterprise activities in this country, the select committee released a report in January which reveals that these programs can, and do, work here at home. In fact, there is a broad array of projects operating at this very moment which help low-income persons acquire capital and technical assistance to launch small business ventures.

Innovative financing techniques, ranging from the creation of community development credit unions to the use of community service block funds to leverage loans from conventional lending sources, are paving the way for impoverished Americans to achieve financial independence.

Today we will explore the socioeconomic benefits of these micro-enterprise credit programs, discuss their viability as a tool for helping the poor establish and maintain economic security, and examine additional steps we can take to expand opportunities for self-employment.

This is an exciting issue and I look forward to a very informative hearing.

[The prepared statement of Mr. Leland appears at the conclusion of the hearing, see p. 48.]

Chairman **Leland**. I would now like to recognize the gentleman from Maine for an opening statement if he has one.

## OPENING STATEMENT OF HON. JOSEPH E. BRENNAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. **Brennan**. Thank you very much, Mr. Chairman. I would like to commend you and the committee for holding this hearing on credit and other funding sources for self-employment.

In my own State back a few years ago we set up a program of this nature where we made it possible for people who were painters, carpenters, seamstresses, and the like who only had their reputations and their skills—we made it possible for loans to be made to these individuals.

I talked just recently with the person directing that program, and it's working. It is exciting to see this take place. We hear a lot in America about loans to bail out Lockheed or other companies. I think it would be nice if we heard more about bailing out some of the people at the bottom rung of the ladder. It is inspirational to see what has been done in so many of these cases.

I think this hearing is appropriate because the experiences we have had in my State with the Coastal Enterprises Program and others like it have proven that we actually have done a lot of good. It is kind of nice—indeed, inspirational—to see just what has been done. I would like to see us do more as a Nation in regard to some of the people who have a lot of talent but who just need a little monetary help and someone to put some confidence in them.

In the interests of time I will submit my full remarks for the record, Mr. Chairman.

Chairman LELAND. Without objection the full text of the gentleman's statement will be entered into the record.

[The prepared statement of Mr. Brennan appears at the conclusion of the hearing, see p. 54.]

Chairman LELAND. The Chair would now like to recognize the gentlelady from South Carolina, Mrs. Patterson.

## OPENING STATEMENT OF HON. ELIZABETH J. PATTERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mrs. PATTERSON. Thank you, Mr. Chairman. I would also like to commend you for the hearings that we have held since I have been a member. All of them have been so meaningful to me as a new member, and I'd like to commend Congressman Wyden for appearing before us today.

Let me say to you that I have seen such a wonderful involvement on this committee in talking about self-help programs. I think that's where we need to go and where we need to look. As a member of the Banking Committee I think it's going to be interesting to me today to hear some of the testimony.

So I look forward to it as I always look forward to your committee meetings.

Chairman LELAND. I appreciate the gentlelady's comments.

Mr. Penny.

Mr. PENNY. Mr. Chairman, I have no opening remarks.

Chairman LELAND. The Chair at this juncture would like to ask unanimous consent that the full text of the statement of the gentleman from Missouri, Mr. Emerson, be entered into the record immediately following that of the Chair.

The gentleman from New York, Mr. Gilman

## OPENING STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GILMAN. Thank you, Mr. Chairman.

I want to commend you for holding the hearing at such an appropriate time. It is only recently that our select committee's microenterprise bill did become law. The facts are in as far as concerns the repayment rates of these entrepreneurs. They show and demonstrate the success of this kind of endeavor. I think it's an exciting area for the Congress to be involved in, and I certainly look forward to hearing from our good witnesses so they can help us respond to the potential of micro-enterprise.

Chairman LELAND. I thank the gentleman from New York.

I would now like to start the hearing by introducing our first witness. He is a good friend who also serves on the Energy and Commerce Committee with me, Congressman Ron Wyden, the Representative from the Third Congressional District of Oregon.

Representative Wyden is the sponsor of legislation allowing States to conduct demonstration projects under which unemployment compensation recipients could use their benefits to launch small business ventures. This provision was part of the reconciliation bill enacted last year.

Ron, on behalf of the Select Committee on Hunger let me thank you very much for joining us this morning.

## STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. WYDEN. Thank you very much, Mr. Chairman. It's a pleasure to come before you, Mr. Chairman. I would just say that as far as I am concerned, you really set the standard for advocacy for poor people and low-income people in the Congress. I feel that if Mickey Leland is associated with the cause, then I ought to be associated with it. I just appreciate the chance to comment and appreciate all the good work that you do day in and day out for the poor and the dislocated in this country. As far as I am concerned you set the standard.

Chairman LELAND. The gentleman is very kind and I really appreciate his comments. Thank you very much.

Mr. WYDEN. I am also very anxious to work with our other colleagues, Mrs. Patterson, Congressman Penny, Mr. Gilman, all of whom have a mutual kind of interest in working for poor people and in advocacy for those causes. And I appreciate the kind words that Congresswoman Patterson and others have said and I look forward to working with them.

What I would say, Mr. Chairman, is that I think it would be cruel and unusual punishment to give you all a filibuster today. I'm not going to put that kind of oration on you. If I could have my comments be made a part of the record, maybe I could just summarize some of them.

Chairman LELAND. Without objection, so ordered.

Mr. WYDEN. Mr. Chairman, thank you.

As you stated in your opening comments, the Self-Employment Opportunity Act would for the first time allow unemployment insurance funds to be used for something other than handing out checks. That's the way the system works today. You hand out checks for earned benefits. It was my belief, particularly at a time of large Federal deficits and at a time when we ought to look at every possible resource, that there would be a way to stretch those dollars. We could use those dollars to try to give poor and dislocated citizens in this country a chance to get out on their own.

That's the point of this legislation. It's a very modest demonstration project that would allow three States to go forward and choose a small percentage of people to be part of this. And clearly, this program is not for everybody. For example, if a citizen came to one of the States that was selected and the citizen had not had access to a good education, for example, and walked in and said they wanted to set up a biotechnology company, my feeling would be that that would probably not be the kind of thing we would want to steer him into.

I think that a lot of these businesses at the outset are going to be low-tech sort of businesses. They're going to be service businesses. But I think we ought to face the fact that there are a tremendous number of highly motivated people in this country with real and marketable skills, and if the Government would give them a chance to help themselves rather than so often locking them into this cycle of poverty and dependence, we'd be a lot better off because I think a lot of them, particularly in the small business sector, could make a go of it on their own.

I think that under this legislation what we really hope to do is to encourage a wide variety of innovative thinking. For example, one of the things that I would like to see be made possible is if there are four or five, say, unemployed folks who have been laid off at a plant or a company that isn't coming back. Maybe they would want to pool their money together on an idea. Give them a chance to pool their resources; if they have a good idea they may be able to take it to a bank or a financial institution and bootstrap themselves into an overall funding package that would give them a chance to really get out on their own and be independent.

As you noted, Mr. Chairman, we are modeling this effort after France and England. Those European models also carefully selected displaced workers. They don't allow everyone to be part of it, but there's been an awfully good track record that has been proven in connection with the European effort. In Europe, each enterprise has created an average of 1.5 jobs, and all of them were financed by unemployment benefit funds that the new entrepreneurs would have received even if they had continued to search for work.

Now, there are some differences, of course, between the United States and the European nations, but I don't think they are insurmountable differences. As the committee's own research has shown, a sum of even $2,500 or $3,500 could really make a substantial difference in terms of a small business start-up.

Under our legislation, using the UI system, we're not able to calculate what each person would get, and of course, each State is different as well, but we would anticipate, Mr. Chairman, that in most of these instances the individual would get about $3,000 to $5,000. That would be a kind of ball park figure in terms of what they would be getting. In my view, it comes very much in line with what the committee has said is needed for people to get out on their own.

I think we also note that the small-scale entrepreneur is already making a very significant contribution to the economy. Officials in California say a full 70 percent of the State's new employment comes from the small business sector, while the analyses they have done indicate that the large companies have declined in importance as sources of new jobs. I think it's even more important that blue collar entrepreneurs have been among the most entrepreneurial of the unemployed. Blue collar small business start-ups are given credit for helping to revive a number of the States, particularly in the industrial belt of the east and the midwest. Federal research shows that nearly 10 percent of the country's displaced blue collar workers who have returned to work without any kind of program or assistance are already self-employed. I would just say, think of what we could do if we would pursue some of the ideas of this committee in the Self-Employment Opportunity Act to try to find ways to extend small amounts of credit to other individuals.

I think the last point I would make, Mr. Chairman, is that, again, at the time of these large Federal deficits we're going to have to really stretch available resources and look at ways to use those resources in a more flexible and creative sort of way. I just think there's something outrageous about saying that people can't use their check for anything other than being part of this system that maintains dependence and a sense of poverty.

I think we can do better with our resources. I'd like to see us take some of these existing resources and make it possible for people to get out on their own in small businesses, make it possible for them to use some of their resources and change the system.

One worker who had read a news report of my legislation came up to me and said that he really felt that today's system was keeping him on what he called "economic methadone." "They give me my check; they just hand it to me, but they won't give me a chance to get out of the system and get off on my own."

So I think we can do better. I'm just glad that you're out there laboring at the grass roots level to look at new ways to do it. I look forward to working with you, both here and in the Commerce Committee, to pursue these things.

[The prepared statement of Mr. Wyden appears at the conclusion of the hearing, see p. 67.]

Chairman **Leland**. Ron, thank you very much. Thank you for your thoughtfulness and your vision. Your leadership in this matter is invaluable to the Congress.

I note the change in attitudes and orientation of Members of Congress who have heretofore thought that the real battle in Congress was either to save the so-called social welfare programs for the poor as opposed to looking beyond to see how it is that we could use those so-called welfare programs to evolve to a point where we actually get people off of welfare. We have moved forward to the extent that we have now passed the Welfare Reform Act, to the extent that we are now coming forth with these kinds of measures to actually give people incentive to get out and do things for themselves; not just to provide them jobs but to create opportunities for them to go beyond that. It's absolutely outstanding, and I commend your participation in this effort.

Mr. **Wyden**. Thank you.

Chairman **Leland**. Let me ask if my colleagues would have any comments they would like to make.

The gentleman from New York.

Mr. **Gilman**. Thank you, Mr. Chairman. I, too, want to commend Mr. Wyden, the gentleman from Oregon, for his great initiative in this direction and for his persistence in helping to get the measure through and passed into law.

What three States do you think will be selected as pilot States?

Chairman **Leland**. Texas, Oregon—and don't forget New York. [Laughter.]

Mr. **Wyden**. Congresswoman Patterson, I know, wants South Carolina, and I'm sure our friend from Minnesota wants Minnesota.

The filing date for applications, I think, ends this month, right around May 1st, and they're going to try to choose the States pretty quickly. The hope is to really have this thing up and running by early 1989. They will choose the States quickly after May. All of us are working with our State employment divisions to try to get us selected, but as I understand it they're going to have some kind of impartial board and go on a numerical basis.

Mr. **Gilman**. Does the State employment division have the responsibility for filing the application?

Mr. **Wyden**. Yes. I'm not sure where New York is on this, but I'd be happy to work with the gentleman on it. Hopefully we can get States with large populations and medium and small and get a good cross-section.

Mr. **Gilman**. I would welcome that and I would like to explore that further with the gentleman.

Would the gentleman inform me about how that fund is utilized? Is this an advance payment on unemployment, put into a lump sum? Is that the method that would be utilized?

Mr. **Wyden**. That's essentially correct. By law, the project makes self-employment payments on the very same terms and subject to exactly the same conditions as regular or extended unemployment compensation. It's treated the same way for tax purposes and it would run exactly like the existing system, but, of course, the worker is told that they will get their whole benefit for purposes of trying to get credit, start a little business, and having the certainty of knowing that that whole portion of their funds could be devoted to their business.

Mr. **Gilman**. And would that be advanced by way of a lump sum? How would that work out?

Mr. **Wyden**. Well, it's still going to be paid on a weekly basis, but they are going to be assured that they would have that whole lump sum for purposes of starting their business.

Mr. **Gilman**. So that would be a guarantee, then, of a loan?

Mr. **Wyden**. Right. They are guaranteed that they have that sum of money; and of course, that guarantee is what they need when they go out and try to get other individuals to go in with them or, say, a cousin would give them some money, or they go to a bank—it's that guarantee which is essential. And once they are selected for this, they have that guarantee of knowing that they have that.

Mr. **Gilman**. And the weekly sum could be assigned to, say, a financial institution?

Mr. **Wyden**. Right. There could be a variety of ways that they could do that. They could assign it to a financial institution or make arrangements to pay as they would on any kind of loan package. It depends on what kinds of approaches they take. For example, it may be that with that small amount of money they can go out and get started, but if they had a bank loan they could expand and hire a few more people. So the terms of this—they vary with other kinds of business transactions and depend on the individuals and what kind of businesses they set up.

Mr. **Gilman**. Well, it sounds like a very encouraging project, and I again want to commend the gentleman for his foresight and fortitude in keeping this moving in the right direction. Thank you.

Mr. **Wyden**. I thank my colleague.

Suffice it to say, you're going to hear from Bob Friedman later today, from the Corporation for Enterprise Development. He really has been the pioneer in terms of thinking about this idea. I just want to also credit him, really, with the vision and the willingness to get out front because when he started to talk about this idea a lot of us in Congress heard about it and decided it was so good we ought to follow up on it right away.

Chairman **Leland**. Very good.

Mrs. Patterson.

Mrs. **Patterson**. I think my good friend from New York has already asked the question that was foremost on my mind, and that's where my State might play into one of the three. With the textile unemployment in our State I would be very anxious, and I will pursue it as we leave here today.

Mr. **Wyden**. I would just say to Congresswoman Patterson that your State is like mine in a lot of ways. Textiles and wood products and others are changing very dramatically, and a lot of those folks in those kinds of industries have tremendous skills. They pick those skills up in a textile mill, a wood products firm—they picked those skills up over the years and for one reason or another the plant isn't coming back. The plant closed down. I think those kinds of people in particular are just the ideal kinds of individuals, folks with tremendous motivation, folks who had some skills, folks who lost their jobs through no fault of their own. Those are the kinds of people that I think could really use this very well.

Chairman **Leland**. The gentleman from Minnesota.

Mr. **Penny**. No questions, Mr. Chairman.

Chairman **Leland**. Ron, thank you very much.

Mr. **Wyden**. Thank you very much.

Chairman **Leland**. Thank you.

I would now like to ask Mr. Frank Swain and Mr. Robert Friedman to come up and be seated.

Mr. Swain is the Chief Counsel for Advocacy at the Small Business Administration, a position he has held since 1981. His work at SBA focuses on the development of policy which affects entrepreneurs throughout the country.

Mr. Friedman is the founder and president of the Corporation for Enterprise Development, a Washington-based nonprofit organization. Under his guidance over the past 9 years, CFED has placed its emphasis on job creation through strategies which establish sustaining economies in depressed communities.

Gentlemen, thank you so very much for being here. We welcome the opportunity to receive your testimony. You may proceed.

## STATEMENT OF FRANK SWAIN, CHIEF COUNSEL FOR ADVOCACY, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY THOMAS GRAY, CHIEF ECONOMIST, OFFICE OF ADVOCACY

Mr. **Swain**. Thank you, Mr. Chairman.

I have brought with me this morning a prepared statement, but if it will suit the committee I will attempt to summarize the key points of the statement.

Chairman **Leland**. The committee would appreciate you giving us a summary of your full text. We have your full text and without objection it will be entered into the record in full.

Mr. **Swain**. Mr. Chairman, I, too, want to congratulate you and the committee for looking into this issue and this concept. As the Chief Counsel for Advocacy I end up making a lot of speeches around the country and bragging about how small business is the backbone of the American economy, and I think it's only appropriate in an economy and a society that likes to consider itself entrepreneurial that we pay more attention to developing entrepreneurial possibilities for those people who, through no fault of their own, have not been able to get on the initial economic rung.

What I would like to do this morning is basically share with the committee some perspective on what small businesses are and how they get started and where they get their money, and then, I will take a few brief comments on particular SBA programs.

First of all, I think it's important to point out that there are a lot of very small businesses in this country. The media, of course, doesn't focus on that; they focus on the trials and tribulations and occasional successes of our largest firms, but in fact small businesses produce 47 percent of the Nation's private output. They account for approximately 99.8 percent of the total number of businesses in the economy. And 56 percent of individuals in nongovernmental, nonfarm employment are employed by small business or are self-employed. In 1987 there were approximately 8.2 million self-employed individuals. From a business standpoint, each of these is an independent business.

Mr. Chairman, there are only about 15,000 businesses in the country with more than 500 employees, and there are well over 11 million businesses in the country with fewer than 20 employees, probably with gross revenues each year of less than $100,000. This latter group is made up of two components: about 3 million businesses that have employees of some sort or another—at least there is an owner, and the owner has a viable enough business to employ one additional person; and then an additional 8 to 8.5 million businesses that are self-employed where the person doesn't have anybody else working for him or her, but he or she has taken upon themselves to start a business and to at least file a tax return, indicating that that business has some degree of viability.

This has been an area of tremendous growth in the economy. Frequently those self-employed individuals, after getting a start and getting some degree of viability, go on to hire people. We find that the job growth that we all like to brag about comes not from the business that has 50 employees moving to 100 employees, but from businesses that are new start-ups, adding their first 5 or 10 or 15 employees. That's really where the dynamism of the economy is.

I will also say that this growth in the economy does not come without a price, and the price is that everybody who starts a business takes a risk. In fact, although we can count well over 1 million—perhaps as many as 1.2 million—new business start-ups each year, probably for every two new businesses that are started there is one that is closed. I want to use the word "closed" because that's different than "failure." Yes, there are some businesses each year that actually fail with a loss to a creditor, but a large number of businesses close voluntarily for a variety of reasons. The business strategy just doesn't work out; the owner loses interest; other factors may enter into it, but the point is that in this country we've had a very dynamic business population because there is both the opportunity for success and, quite honestly, the opportunity for failure.

And I think that that's one major difference between this country and the western European tradition where there is not a lot of business start-up because business failure is seen as such—first of all it's legally difficult, and second, I think it is a much greater burden culturally and socially for one to fail in business in another country than it is in this country. This country is full of people that didn't make it the first time, picked themselves up, tried again and learned from their mistakes and have been successful the second time around.

The other point I want to mention on the business economy is that a large number of businesses start up without borrowing any money at all and with little to no start-up funds of their own. In fact, in analyzing the most recent data available from the Bureau of the Census we have discovered—I think to our surprise; we knew this was happening to some degree but we really didn't realize the extent of it—that approximately 70 to 80 percent of the businesses that start in this country each year, both self- employed and people with employees, start with less than $5,000 in equity. Some report no equity; a great number report less than $5,000 in equity, so there are a large number of very, very small businesses starting each year.

Likewise, not every business has to go to the bank or anybody else to borrow money. Many businesses—about two-thirds of the businesses that start up—do borrow money. They borrow money both from banks, from friends, colleagues, family, and so on, so there are many sources out there for borrowing a reasonably small amount of money. Our experience, I think, is that as the amount of money that one tries to borrow gets larger, obviously that's when there's a greater degree of difficulty.

So to the extent that your proposals and programs such as Mr. Friedman is going to discuss attempt to emphasize that there is a place in the American business society for the very small start-up business, micro-business, whatever one wants to call it, that's absolutely the case. Some of those businesses don't make it, but many of them do. They go on to grow and expand. There is always some risk involved, but I think there is always the reward involved, too, of profit, reputation in the community, having something productive to do, and that's why we have had a very dynamic economy in the last several years.

I will simply close by mentioning two broad SBA programmatic areas.

Our financing programs—I haven't done a scientific study of this, but in all honesty they probably aren't all that great for the start-up business. As you know, the major program for SBA financing is a guaranteed loan; about two out of three of those loan guarantees go to existing businesses and about one out of three goes to a start-up business. They are usually for amounts of money in excess of $150,000, probably more money than a lender wants to risk on a brand new start-up, even in spite of the fact that he or she may have an SBA guarantee.

We'd like to make that situation a little bit better. On the other hand, the law that underpins all of our financing programs requires us to make a loan where there is "a reasonable expectation of repayment," so we cannot just disregard the fact that there may be little to no collateral or little to no equity brought into the deal.

I think that maybe of greater significance—and I'd be interested in working with the committee and with the sponsors of legislative proposals—are some of our management counseling programs. In particular a program that we have which I'm sure that you're familiar with, the SCORE Program which takes volunteer retired business executives, is a very effective program from a Government budget standpoint and also from a business counseling standpoint. We have SCORE chapters around the country. In researching for this particular hearing I find that SCORE is currently in the process of negotiating with the Department of Housing and Urban Development for a pilot project to establish business counseling centers in some public housing centers in the midwest. If that program is successful, then we would hope to be able to replicate that around the country.

Mr. Chairman, I think the agency has a great interest in promoting this sort of development and working with members of this committee as well as the Small Business Committee in seeking to focus our programs within the laws and regulations that we have on the population that you're particularly interested in.

I'd be happy to take any questions.

[The prepared statement of Mr. Swain appears at the conclusion of the hearing, see p. 69.]

Chairman **Leland**. Thank you very much.

Mr. Friedman.

## STATEMENT OF ROBERT FRIEDMAN, FOUNDER AND PRESIDENT, CORPORATION FOR ENTERPRISE DEVELOPMENT

Mr. **Friedman**. Thank you very much, Mr. Chairman and all the members of the committee, for inviting me here; but even more so, for taking this subject seriously. There was a time, before I discovered WEDCO and the European programs and Grameen Bank, that I thought only my mother believed in this. [Laughter.]

I will simply summarize it here; in the interests of making it short maybe I will leave out some of the qualifiers that might belong here. I will try to add those back in if there are questions.

We have for a long time spent on the poor in this country, but we have rarely invested in them. There is a large difference there. When you spend through income maintenance or social services you maintain consumption, but you don't necessarily treat people as though they have capacity and talent and vision that can grow over time and return value to the economy as a whole.

For every dollar we spend in the name of the poor, ninety-plus cents goes for income maintenance or social services. A few pennies go for training; at most, a fraction of a penny goes for anything that can be construed as economic development or expanding the opportunity to produce.

This probably wouldn't hurt so much if those transfer payment programs enabled people to move forward. But more often than not, the implicit social contract in our transfer payment programs—whether they be unemployment insurance, welfare, or Social Security—is, "We will support you as long as you don't seek training, you don't seek employment, and you don't, of all things, try to create a business or a job for yourself." Do any of those things and you lose benefits, often precipitously.

I think the problem with this system is not so much that we reward indolence, as some have suggested, but rather that we penalize effort. Let me give you an example with regard to self-employment.

A welfare mother who pursues self-employment will, after 4 months, get her grant reduced dollar for dollar for every dollar she earns. She will often lose Medicaid eligibility or child care slots. No distinction is made in the system generally between business and personal assets; so if she is given a typewriter because she thinks she can earn her way off welfare by taking in typing and thereby exceeds the $1,000 asset limitation, she loses eligibility. And you can go on looking at the treatment of loans or other business expenses.

There are now a whole series of programs and experiments at the State, local, and Federal level to look at ways that the income maintenance system can support and encourage training, employment, and self-employment. I won't go over all of those means here. I simply want to add that people get poor for a variety of different reasons and they will escape poverty through a variety of different routes. Self-employment is one of those routes. It is not a route that most—or perhaps even many—poor people will take; but I think there is reason to believe that for a percentage of those people who find themselves poor or unemployed, this is an escape, and it is an escape to self-sufficiency that at the very least we ought not impede, and preferably, we ought to help.

The trigger for self-employment, it seems to me, is necessity. If you can't find a job, if you don't have enough income to pay the bills, you look for some other ways to make ends meet. It is for that reason that when we look at self-employment rates—we find, at least in the midwest they are twice as high among the poor, those with incomes below the poverty line, than among the nonpoor. But if necessity is the mother of invention here, it seems to me that there is an incredible opportunity for expansion if only we support—culturally, financially, with training and with skills—this impetus of people to support themselves.

As Frank Swain pointed out, seed capital—that earliest form of money to finance new ventures—overwhelmingly comes not out of an institutionalized system but out of personal savings or savings of friends, family, and associates. That's a system that works wonderfully well on the whole in this country. It probably dwarfs the venture capital industry in size, although we have no good data on it. It works well because essentially at that point in a business venture you're betting on a person, not on a business idea, and who better to bet on a person than someone who knows him or her? If that sounds a little uneconomical to you, then I would point out the old venture capital wisdom that you always take a grade A entrepreneur with a grade B idea over a grade B entrepreneur with a grade A idea.

While it works well overall, it seems to me that it doesn't work in low-income communities or, often, in communities hard-hit by plant closings or mass layoffs. There it may constitute a sort of economic grandfather clause every bit as insidious as the voting grandfather clauses of old that said that you could only vote if your grandfather did. The new economics say that you can only start a business if somehow you are in a community where there are funds available from friends, family, and associates where you can finance your business idea.

There are lots of experiments occurring around the country today with seed capital, to provide seed capital to the disadvantaged. They vary in sources. There are individual venture capital networks that try to link investors to potential businesses. There are informal groups, particularly within ethnic communities, for saving and investment. There are efforts by banks and other financial institutions, sometimes with guarantees provided by public and private organizations, to advance loans. There are public sector programs; the Representative from Maine pointed out the Maine Job Start Program. There's an older one in Vermont, the Vermont Job Start Program, with a good track record. States are now beginning to experiment in opening a self-employment option to welfare recipients; we are working with five States right now, and more are making that effort. There are the three State experiments that Congress has authorized, with self-employment for dislocated workers eligible for UI. The Department of Labor made an additional grant to Washington State last year to similarly explore lump sum self-employment allowances. Foundations, like the Ford Foundation, the McArthur Foundation, the Joyce Foundation, the Charles Stewart Mott Foundation, have provided grants for seed capital as well.

There are a variety of sponsors for these funds. They are public, they are private, they are community, State, and local.

There are a variety of different technical assistance providers and provisions that go along with the provision of these seed capital grants. There are a variety of entrepreneurial training programs now being funded in the JTPA system, in the vocational educational system, and in post-secondary education. The problems with those are that they are divorced from financing availability, is you find people getting just to the point of starting their business and finding no financing available. There is a very sad story that comes from the District of Columbia about precisely that kind of program for welfare recipients where several had come just to the point of starting a business only to find that there was not even the small amount of financing necessary to start that business.

WEDCO, from whom you will hear later on today, has one of the most sophisticated technical assistance systems of individualized and continuing assistance to entrepreneurs in the world. Often the most critical time is not the time that you start a business but the time you encounter your first problem and you are tempted to run away from it. WEDCO is there to help at this point.

I think one of the most promising technical assistance mechanisms is the solidarity group. It is something that has been demonstrated to be quite effective in Third World countries. It's something we are only beginning to import and experiment with here. Southern Bank Corporation in Arkansas will be a first major test of it. The Women's Self-Employment Program in Chicago is also testing it.

What can we conclude on the basis of the experiments thus far?

If appropriately designed, the loss rates are high but manageable. We think you can aim for loss rates of 20 percent or less. That may seem high, but remember, we're not talking about bank lending; we're talking about something that's even riskier than venture capital investing. It is possible that we might be able to lower that dramatically through, for instance, these group screening mechanisms. Loss rates for the Grameen Bank, with literally hundreds of thousands of borrowers, are below 2 percent.

We think technical assistance of some sort is essential. We think that if these institutions are truly to develop there will need to be some patience. There will need to be some equity and grant investment, some staying power, so that we can move up the learning curve and really learn how to do these things better.

There is tremendous interest and there is tremendous need. It seems to me that it comes not so much from those of us who are advocates or those of us who are program providers, but from the poor themselves who are seeking ways to support themselves and their families.

I think the speed of experimentation is going to exceed that in which we're currently engaged. We tried to launch several controlled demonstrations; my sense is that the demand on the part of poor people, on the part of States, on the part of community groups is going to far exceed the limited demonstration approach. I think people will be seeking ways to broaden the experimentation.

I have two modest proposals for your consideration.

First, we ought to seek ways of reducing the barriers to self-employment in the transfer payment system.

Second, I think we should look at all the grant and economic development finance programs and ask why 1 percent of those guarantees or loan or grant programs ought not be targeted at this group and for these types of loans. I think you can expect high leverage rates from these kinds of investments.

To conclude, I think we're not just talking about expanding the opportunity for employment or for income, although I think this offers both of those possibilities. To me, the importance of cultivating self-employment is that it is a crucible for an entrepreneurial culture. It is an important step toward creating sustaining economies in chronically poor communities. You measure their benefit not just in terms of the jobs or incomes that are created in the next 2 to 3 years, but for the additional people—the neighbors or friends or even the next generation—who are thereby induced to go into business themselves or to try other routes to self-sufficiency. We know that a major correlative of going into business is having had a parent or a relative or a neighbor who went into business. I think that should work prospectively as well as retrospectively.

These are investments in the future economy 20 years down the road in poor communities. They also evidence a new sort of public policy, one that joins social and economic goals. I believe that social and economic progress in this country are now inextricably linked; I doubt that we will solve the social problems we confront, be they hunger, family breakup, drugs, without also addressing the economic problems that so often underlie them. But the reverse is also true. We will not create the new products, the new services, the new processes that the new economy requires without also bringing new people to the marketplace.

Thank you very much.

Chairman LELAND. Thank you very much. Thank both of you.

Mr. Swain—well, before I begin questions, let me say that we have the gentleman from West Virginia with us.

Mr. Staggers, do you have a statement?

Mr. STAGGERS. Thank you, Mr. Chairman. I appreciate the testimony. I have no questions.

Chairman LELAND. Mr. Swain, how do failure rates among microenterprise ventures compare with those of traditional small businesses?

Mr. SWAIN. I don't have a statistical answer for that question, Mr. Chairman. One reason is that it's very difficult, except after a long period of time, to discover who has actually failed. We have an open economy in this country and you don't have to go register with somebody when you go into business or when you leave business. It's just that 2 or 3 years later, when you get the IRS statistics, you sort of find out about it.

Certainly, I think the failure level among micro- enterprise businesses is probably quite high for a variety of reasons, the first not being inadequate capital. I suspect the first is inadequate experience and knowledge of business management principles. To sort of reflect on what Mr. Friedman said, we have a lot of people seeking assistance at the SBA that have a great idea for a wonderful new product or service, but they haven't got the foggiest idea of how to set up a balance sheet or try to make a cash flow projection. Most studies by any sources say that the major cause of business failure is the lack of management capability or experience.

I'm not sure that I dare say that micro-business failure is higher than any other type of business failure, except only to point out that small business failure in general is pretty high, and the larger a business gets—failure is only the final option. If the business is a $100,000 business, maybe they can cut back a little bit and by only doing $50,000 worth of business hang on, restructure slightly, and ride a problem out. If you've only got $5,000 in the business and you lose that $5,000, that's a failure right off the bat, so there's not as much stretch room on the micro-business side.

One other thing that I will mention. The SBA has one limited experience with a so-called micro-loan program. In 1979 the SBA, for about a year and a half, initiated a loan program—I think they called it the "mini-loan program"—specifically focused at encouraging entrepreneurship among women. The chargeoff and liquidation rate under that loan program was significantly higher than under our normal business loan program, which is high in the first place.

I'm not really sure why; there are a number of hypotheses that have been advanced, but it does seem that as you're dealing with people that haven't been in business at all before there's certainly a greater risk.

Chairman **Leland**. Very good.

Based on your research, how viable an option is self-employment in helping low-income persons become self-sufficient?

Mr. **Swain**. Well, I would agree absolutely with what Mr. Friedman said. I think it is a viable option for some people; certainly not all people, and probably not most people, just as going into business is only a viable option for some people. There are a lot of people that are better at working for somebody else than they are at starting a business themselves. That doesn't mean that they're good or bad, but just that their talents and their personality are different.

I think that Mr. Friedman's points that are especially important—and I'm sure you'll hear about it from the programs that are up and going—include a careful screening to try to figure out those people who can take an idea and take some money and make a success of themselves as opposed to those who, for a variety of reasons, just probably won't.

Second, realistic expectations. We don't expect every business that we assist at the SBA will succeed. We hope that that's the case, but we're always discussing with the Small Business Committee what level of failure of loans is the right level. That's a public policy question when you get Government money involved. But I think as Mr. Friedman indicated, any program that is set up ought to have an expectation that they're going to try to get every business to succeed, but the program will be judged a success if they have a certain percentage succeeding and a certain percentage failing, and that percentage failing is going to be a lot higher than would be tolerable in any bank or private financial institution.

Chairman **Leland**. How extensively are community development credit unions involved in Small Business Administration guaranteed loan programs?

Mr. **Swain**. I don't know, but if you'll allow me to ask my chief economist, who also happens to run the SBA Credit Union, Mr. Thomas Gray?

Chairman **Leland**. Sure.

Mr. Gray, you might come forward and just have a seat, if you will, and give your name and your title for the record.

Mr. **Gray**. My name is Thomas Gray, and I'm the chief economist for the Office of Advocacy.

On the side, I also am the president of the Lafayette Credit Union, which services a number of Federal agencies.

Federal credit unions, for the most part, have just recently been authorized to make "commercial" loans as opposed to personal loans. We know as a matter of record that many of the loans that we make to individuals end up supporting business activities; however, the loans are made completely in terms of the individual and the individual's ability to repay.

With the introduction of the authority to Federal credit unions to make commercial loans, I believe the community development credit unions will take a major role in providing funding for micro-type businesses. Particularly, community development credit unions are already focused on serving the community on a neighborhood basis, and I think they are focused exactly at the micro level in terms of their interactions with that community. My hope is that the larger credit unions will also take a similar type of role.

Chairman **Leland**. Very good.

Mr. Swain, based on information you have received through your Answer Desk Program, what are the major causes of small business failures?

Mr. **Swain**. Well, I think that the major cause of small business failure is inadequate management. That's not quite the word I'm looking for—lack of management experience, lack of appreciation of what I call the business side of the ledger as opposed to the product side of the ledger. People borrowing money at the wrong time—the problem may not be that they don't have enough money but that they have too much money and too much debt to service, people that haven't thought it through; people that know that they can make a great product but they haven't thought through how they're going to sell it or how they're going to sell it in a competitive market and differentiate it from someone else's product.

Government is occasionally a factor, but the basic factor underpinning business success or failure, I think, is the character and the motivation of the individual starting the business. If people are open enough to assistance—we don't expect everybody who starts a business to have an MBA; in fact, that probably wouldn't be a very good result. We don't expect everyone to know the answers about accounting and legal questions, but they need to be open enough and humble enough to ask experts for assistance because there are a variety of programs—Mr. Friedman is much more knowledgeable about it. We have SBA programs that are available out there to give assistance. Too many times somebody calls us in trouble, when the IRS is at the door, ready with a padlock. And then, frankly, it's too late.

Chairman **Leland**. Very good.

Mr. Friedman, based on your research and assistance, how speculative are efforts to help the poor achieve self- sufficiency through self-employment?

Mr. **Friedman**. I do think it's important to start out recognizing that there's a lot of it that happens anyway, that part of what we do here is simply recognize and bring above ground some things that either are driven under or that people simply aren't recognizing. Seven point seven percent of dislocated workers who have become reemployed become reemployed by reemploying themselves. The average rate for self-employment in this country is roughly 6.5 percent, but rates among the poor, where we have the data, seem to exceed that.

There is also some evidence that suggests that your chance of exceeding any given income threshold is at least as great through self-employment as through wage and salary employment, and as you raise that threshold above $10,000 or $12,000, that your chances of exceeding it are better under self-employment than through wage and salary employment. I think that one of the reasons why women's business formation rates are now increasing at three to five times that of men is because they look at a labor market where their opportunities are often constrained and they say, "Well, maybe I'll do better by playing by my own rules."

While failure rates will be high we think they will not be unacceptable. We are only learning the types of support systems necessary to sustain self-employment or what they might look like. Indeed, in our welfare self-employment demonstration the two questions we're asking are: First, can self-employment be an escape to self-sufficiency for a significant number of welfare recipients? And second, if so, what's the array of support systems that you need to get that?

There are a couple of reasons to expect that failure rates under self-employment could be lower than the general failure or closure rate. One is that if you give the appropriate type of assistance—and my fellow panelists that come later will describe some systems—you get very low failure rates. There are very low failure and closure rates in the Third World countries. In the Great Britain countries 54 percent of the businesses started by the quarter million who have taken advantage of the enterprise allowance scheme who were unemployed are still in existence 3 years afterward even without any really significant technical assistance.

Second, if you can get people to self-screen themselves out early on, you can substantially reduce those failure rates. I should add there that I am not very trusting of screening mechanisms because I think we often tend to screen out the wrong people. In fact, one of the findings of a recent evaluation of part of the French program was that it was the people that had the fewest options that tended to succeed the most. They had nowhere else to go and they had to make those businesses work.

I heard both WEDCO and the British articulate the same principle on having Government agencies or private sector agencies do the screening. The British called it the "DeLorean Principle;" the WEDCO folks called it the "Pet Rock Principle." Our ability to judge a viable business venture is fairly circumscribed. What seems to work better is self-screening. Make sure that the would-be business person confronts all those questions that their business will have to overcome if it is to succeed—what are you selling? Who are you selling it to? How are you going to bring it to their attention? How are you going to finance it? And then I think you get quite reasonable failure rates.

The other issue here is that I think sometimes we stumble on minority business development efforts and disadvantaged community business efforts because we try to run before we can crawl or walk. We string people out on debt when what they need is equity investment. We ask them to start businesses that will quickly employ 30 or 40 people and then grow rapidly to several hundred. What we're now looking to do, I think, is to start at the beginning, take one risk at a time. WEDCO will talk about "stepping," both in terms of loans and, I think, in terms of business risk, which I think is fairly important.

Chairman LELAND. There are a variety of micro-enterprise credit and self-employment initiatives. Is there one model in particular, or two or three or several in particular, that work better than others?

Mr. **FRIEDMAN**. There are certainly a number that I would look to. I'm not actually familiar with all of the programs that will testify later, although I have watched WEDCO for a long time and think it's a superb support system.

The Grameen Bank in Bangladesh is an extremely important model. Someone asked Mohammed Yunus, who started that program, what he thought the relevance was to this country. Clearly, we live in a very different set of circumstances. He said, "Well, I think what it stands for is that there are talented people among the poor everywhere." I think that's absolutely an applicable lesson. I'm quite hopeful that some of the demonstrations that do mature will be quite successful. I am hopeful that the Southern Bank Corporation work in Arkansas will become an important model, and that what Washington State will be doing in terms of dislocated worker self-employment programs will also prove successful.

Chairman **LELAND**. I like your idea of taking about 1 percent of those existing economic development programs and targeting the kind of micro-enterprise ventures that we're talking about now. Can you just expand on that for a minute?

Mr. **FRIEDMAN**. Obviously, you will encounter a lot of different questions with different programs. My sense is that we have missed this sector because we have kind of overlooked it. It seemed too small. There are some particular difficulties; transaction costs—it's harder to make lots of small deals than a few large deals, but I guess what we learned from David Birch was how to count, that a lot of small things add up to a big number as well as a few big things do.

If you took 1 percent of a loan guarantee program or a direct loan program or a grant program and targeted it for micro-enterprise, I believe I could show you as least as great public returns in terms of jobs, taxes, as well as psychological and social progress, as well as the development of an entrepreneurial culture in precisely the communities that are most in need of it, as the existing programs.

Chairman **LELAND**. Do you think we should target those by way of line-iteming or at least reserving a portion of the moneys under the oversight authority that the Congress has in these programs? Or do we just advocate through our block grant programs to State and local governments that they will execute this kind of consideration for the purpose of targeting and establishing goals?

The reason I say that is because these micro-enterprise programs would qualify automatically for many of the economic development moneys intact now. The problem is that the philosophy has not yet been put in concrete or it has not been demonstrated that these are viable business opportunities, at least to the extent that they become politically acceptable by State and local officials. Something that comes to mind right now is that the city of Houston is embroiled in a big controversy as to whether or not we take $15 million of the community development funds, for instance, under the economic development section of community development, to be used for the purpose of building a $100 million downtown convention center and hotel. It qualifies under community development because the enterprise itself would provide job opportunities for those in the community who would be considered disadvantaged or, in some instances, hard core unemployed people. Houston is in a very difficult situation, as you well know.

But anyway, I'm opposed to the project. Not that I'm opposed to the downtown convention center and hotel, but we have very few precious dollars available to us for helping the poor and disadvantaged people of our city. How is it that we can take this money and add it to a private enterprise interest, give it to the Hilton Corporation to build a $100 million hotel, when in fact if we could take this $15 million and look at micro- and semimicro-enterprises and do so much more in terms of stimulating these self-help opportunities, if you will? What can we do in the city, in the black community where we have a 19 percent unemployment and a 10.7 percent unemployment rate in the city overall—what can we do with $15 million in the city of Houston, to develop the types of programs you're advocating today?

Mr. FRIEDMAN. I think you could do a lot. I do have a prudent side of me that I try to keep under wraps. I'm not sure I'd be ready to talk about a set-aside across the board. It does seem to me that we should press the question very hard, though it would probably mean different things for different programs.

I do think, as your question recognized, States and localities and community groups are very active right now at innovating in a whole host of areas, including business development finance, so anything you do on the Federal level ought to recognize that they are active contributors, that they could probably augment whatever funds you chose to designate in this area. My sense is that in terms of loan funds, if you're willing to make a grant, you can expect at least 5 to 1 leverage. If you cover that 20 percent loss rate, essentially, then it's pretty easy to bring other public and private sector players into the game, so you get a lot of leverage.

I would also say that there is a tremendous bias in economic development toward big projects and toward bricks and mortar, both of those for some very good reasons. But the net result is that very little money, attention, and effort is left for business development, which I think creates jobs and role models and real wealth in a way that is really quite profound, and I'd really like to see more attention going nationally. And indeed, I think we are beginning to devote attention to that potential.

Chairman LELAND. Thank you.

Mr. SWAIN. Mr. Chairman, can I make an observation?

Chairman LELAND. Certainly, Mr. Swain.

Mr. SWAIN. Without getting into what should happen to that $15 million in Houston——

Chairman LELAND. I don't mind if you take my side. [Laughter.]

Mr. SWAIN. If you were to propose—or such a program were to be established by regulation or law or whatever, I think that your example—if that $15 million, for instance, were to be turned into low-income loans, that's 1,000 loans at $15,000 each. I think Mr. Friedman pointed out the real problem; it takes a lot of time and effort and expertise to prudently grant 1,000 loan applications and weed through the 7,000 or 8,000 or 10,000 or 15,000 that may come in. That's the real difficult issue from a Government program administration standpoint.

One of the reasons that the Small Business Administration, for instance, has really attempted to get completely away from direct lending and into total guarantees—certainly budget is one reason, but another reason is an operational reason. Bankers are used to passing on credit decisions. With all due respect to myself and my colleagues, Government employees are not. Generally, people in the Government are not necessarily the best ones to screen through what is best and what is not; yet, finding people either in the private sector or in community organizations that are capable of doing that takes some degree of effort.

So my caution would be, one, if such a program were established, either in a specific agency or in a set of programs or whatever, that the committee pay a lot of attention to the operational issues: how is this to be done and who is to do it?

Second, that the committee pay attention to the extent practical to making sure that whatever Federal moneys are now going directly to the consumer, the loan applicant or whoever, not get diverted to support the intermediaries. In other words, if there were a community organization that sprang up in Houston to disburse this $15 million, then indeed the $15 million of UDAG money would go directly out as loans and they would have to raise their money from someplace else to buy themselves office space and pay their employees and so on. I think that's the real problem. In the name of channeling resources to the poor or the unemployed we don't want to create a whole new set of Government-subsidized intermediaries. That may be necessary, but that shouldn't be done with Government money.

Chairman LELAND. What happens if we take a bank or a group of banks in a particular location and appoint them as the administrators of those moneys? I don't know what incentive the bank would have other than public responsibility to accept this role. Maybe we use a portion of the moneys to pay them a fee to do this which provides some minimal incentive. What happens in that case?

Mr. SWAIN. Well, your committee report from January mentions one possibility. The SBA attempts to expand its own lending program through banks by allowing a secondary market so that the bank can take that SBA Government guarantee and sell it on the secondary market and make a return in that respect. And there are a number of other things.

I'm not sure—please don't take my comments as an unqualified endorsement of the role of bankers in every case, but I think that in many cases bankers are very traditional, asset-based, fully collateralized lenders and they are very uncomfortable making any other types of lending decisions. I'm sure there would be a role for banks of some sort or another, and the role may well vary depending on the bank and depending on the attitude of the bank's managers.

Chairman LELAND. Maybe we should use credit unions instead of traditional banks.

Mr. SWAIN. I'm sure there would be a role.

Chairman LELAND. Would you care to comment on that?

Mr. **Gray**. Mr. Chairman, that is one of the most difficult problems that the credit unions face in turning to commercial loans. The Congress gave the authorization, I believe, in 1982 to enlarged the lending capability of savings and loans, for example. It took pretty much until 1986 or 1987 until the savings and loans could hire qualified lending people. There's a learning curve that is a very steep and a very dangerous learning curve. For credit unions, I'm afraid it's going to be——

Chairman **Leland**. Let me remind you that I'm from Texas, and I have some real experience. [Laughter.]

Mr. **Gray**. But I do believe that that problem can be overcome. It's just going to take a little bit of time. How much money you can place effectively in a short period of time is probably constrained by the ability to give those loans, but we can develop that capability given the knowledge that there are funds available.

Chairman **Leland**. Very good.

Mr. Staggers, do you have any questions of the witnesses?

Mr. **Staggers**. Yes. Thank you, Mr. Chairman.

I am also interested in the targeting that the chairman pursued a little bit. My understanding is that it would be targeted to micro-type businesses. But listening to Mr. Swain, it triggered in me the question, what about more targeting? What about targeting to depressed areas, such as some of the other things which we could accomplish with those types of governmental decisions? I think that's what the chairman started to ask, or at least that's what I thought he was asking.

What would be your feeling about that, Mr. Friedman, about more targeting? Not just micro, but even making more policy-type decisions with the targeting mechanisms?

Mr. **Friedman**. I think it's something that we really need to look at.

I do think that the issues that both Frank and Tom raised are real in terms of what sort of entities. We are low on the learning curve. There are an increasing number of organizations doing this kind of lending. I think any kind of system we set up should experiment with a number of different intermediaries: private for-profit, private non-profit. I do think in general that the Federal role—even the State role—should be as a wholesaler, not as a retailer of funds. You ought to always look for leverage.

I do think the need is particularly great in chronically poor communities and in communities hard hit by plant closings or economic dislocation, and we should find ways of targeting.

I might add, though, that one way around the transaction cost problem and one of the things that attracted me to these transfer payment based programs in Britain and France and now nine other countries, is the fact that they don't make a whole lot of credit decisions. They say essentially, "We're spending this money anyway. We're simply going to undo some of the strings and let people have a shot." It's not necessarily the most prudent way to do it, but the British Exchequer figures that they make money after the third year of that program even without any screening by running the enterprise allowance scheme as an entitlement program. So I think there are lots of different mechanisms. The beauty of the transfer payment system is that to some extent it is already targeted to those most in need.

Mr. **Staggers**. Well, I'm not from Houston; I'm from a very rural area. I guess my concern is that if it's somewhat competitive, you're going to get Houston that is going to have the experts. They may not be the actual people who will receive the benefits, but you take a State like West Virginia or most of the States in Appalachia, none of the money will get to a rural area because you won't have the expertise to even make the applications, which I think Mr. Swain even mentioned earlier as one of the problems with existing programs.

So when I'm talking about targeting, I'm talking about even more targeting than the benefits. I'm talking about the program, not just the benefits.

Mr. **Friedman**. Well, I think it's important—this is an important development tool, I believe, particularly in rural areas. It ought to be applicable there. Again, you often find that people in rural areas are earning income through different sorts of ventures that might have some growth potential, and I think it's important that we recognize that.

I do believe that we're going to have to develop greater expertise through experimentation in this whole area. I think we haven't begun to tap the ability of solidarity groups, friendship networks, and affinity groups to help in doing that kind of screening, particularly in these earlier stages where it's a bet on people even more than it's a bet on a business.

Mr. **Staggers**. That also triggers another thought in my mind. You mentioned that you don't favor too much screening, that you would rather have them confront some of the decisions——

Mr. **Friedman**. Yes, a form of self-screening.

Mr. **Staggers**. It seems to me that too much screening defeats the purpose of any of those type of programs. Mr. Swain didn't really reply to Mr. Friedman's observation, but I would like to hear it. I would tend to agree that if you're successful and you go through the screening process, you may not need the programs. If you're going to succeed—I guess my question would be, why wouldn't they be successful? And how can we help? I think that might be what Mr. Friedman was addressing, if we can make them confront some of those decisions. I wouldn't necessarily call them—I know you used the word "humble" and I'm not sure you used it, but I'm not so sure that "humble" is the right word; maybe "ignorance" as opposed to the humility that we have to overcome. Some of the people don't know the right questions to ask. They have to overcome some sort of pride that they think they know everything; it's just that they don't have the expertise.

Mr. **Swain**. I would agree, Mr. Staggers. I was trying to use the word in that context, certainly.

I think nobody has invented a Rorschach test that somebody can come in and take, and if they come up with a certain score they're an entrepreneur and I'm not. It just doesn't work that way. A lot of people spend a lot of money trying to develop such a test. We get a lot of proposals at SBA to give grants to people to develop such a test. I'm just convinced it can't be done.

On the other hand, I don't know where I am—in the middle between two poles. There's one pole that says that you ought to screen out as much as you can. On the other hand, you can't just make a program, I don't think, that's responsible to either the recipients or the taxpayers that says "first come, first served."

One of the problems, I think, with our mini-loan program is that we got the impression that a lot of people that applied for the program really considered it more of a grant rather than a loan. Such a little amount of money; if they lost it, well, not too much would really happen. I realize that's a broad overstatement, but the point is that you've got to be somewhere in the middle between no screening at all and a very "cast in concrete" set of qualifiers that somebody from the Government applies, because I think that would certainly tend to weed out too many potentially successful applicants.

Mr. **Staggers**. I think that's a good observation, but I think Mr. Friedman's observation that the self-screening—making them confront some of the decisions, the education process—may fall a little bit more toward the middle than just an open grant——

Mr. **Swain**. I suspect your subsequent panel, the people that actually do this on a day-to-day basis, will be more responsive to that.

Mr. **Staggers**. One other thing that I would like to pursue along those lines. I know Mr. Friedman mentioned that small businesses are more innovative. I would assume that small businesses are less likely to move offshore and take the investments that we are making in them and flee the country.

It would seem to me—Mr. Friedman mentioned that it's an investment in the poor community. I would say it's an investment in the United States. It seems to me that it's a better investment than just a general type of grant. When we talk about tax policies, when we talk about some of the investments that we're going to be making in the future, these are some of the things which we would need to explore.

Mr. **Swain**. I would agree. Certainly, small businesses are very unlikely to move offshore until and unless they get large enough that they can figure out it's cheaper to produce something offshore, and that does happen. There's no getting around that.

But certainly, the population that is the subject of these hearings is an unlikely population to move offshore in the first few years of the business.

Mr. **Staggers**. Well, as a taxpayer I want something in return for my tax dollar. If these companies are just leaving, that doesn't give me anything in return. I think there's more of a guarantee for these types of businesses which we are addressing in this committee that we're going to get something in return. We're going to get tax dollars, we're going to get less money being spent by the Government, we're going to get opportunities. It just seems to me it's a lot better investment than to have no guarantee at all for some of the policies that are being debated about general type of grants to some of the businesses that are now large enough that they are making those decisions to leave.

One final thing—I'm probably much over my time, and I apologize; being a new member, I don't want to offend the Chair—but Mr. Swain, once again, hopefully it's a misinterpretation, but the final paragraph of your prepared statement—I've got to say I'm somewhat leery of those types of arguments. When you talk about "regulatory decisions," that's a nice, general type of statement. What type of regulatory decisions are you talking about? If you're talking about safety regulations, for instance, sure, it costs the business something, but it also costs more to the business if we don't have this type of decision. I think those are policy decisions which have to be made by the Government. We talk about Government-mandated worker benefits. It's my understanding that most of the Government-mandated benefits that are being proposed exempt small businesses. Once again, I don't think we want to grant a license to exploit anybody. When you talk about increased taxes—and once again, I would agree that with a small business, that's a burden. As a small business when I opened my law practice in West Virginia I didn't know whether I could pay my secretary, but I knew I had to pay the taxes. That's a difficult position to be in.

But also, realizing that taxes do build infrastructure, build the transportation systems, the water and sewer projects that need to be incorporated into our infrastructure, provide for education—we have to have that balance. Hopefully yours is not a blanket type of statement against any type of Government involvement?

Mr. SWAIN. No. I'm not making a blanket statement at all, Mr. Staggers, but I think that I probably do have a slightly different perspective than you do on this.

Mr. STAGGERS. I'm sure.

Mr. SWAIN. I'm an advocate of small business. Every day businesses come to me and say, "The regulatory decisions being made by EPA," in a particular rulemaking, "are too burdensome. They would force all my foundries to close down." So we go over and we negotiate with EPA; not to repeal the environmental laws, not to stop regulating particular pollutants, but to make different specific decisions on the levels and the phases and so on and so forth.

It is axiomatic that as the cost of labor goes up, that's when businesses start thinking about producing offshore rather than onshore. I'm not for a moment saying that we ought not to be very cognizant about how to solve the problem of people that don't have health insurance in this country, but neither do I think that necessarily the best way to do that is to mandate that every employer take responsibility for himself or herself. And the only program that we have in existence in the country, the recently passed program in Massachusetts, indeed does apply to all employers except those with fewer than five employees. Then we get into specific arguments about thresholds.

So I'm simply trying to raise the point in a broad way; certainly, not to make it equally applicable to every specific argument, that it's important to talk about programmatic stimulation to help people get into business. But once people are in business they won't succeed if the entire business climate is terribly burdensome in a regulatory sense or a legal sense or in a tax sense. Certainly, one of the reasons there's been a major growth in entrepreneurship in the United Kingdom has not only been because of the business expansion scheme but because of the fact that the United Kingdom has significantly brought down taxes and lessened the regulation.

Now, we can discuss at another point in a lot of specifics exactly where those individual decisions should be made, but I'm just suggesting that the small business person not only takes into account whether he can get specific Government assistance for a particular business idea, but generally over the long term whether he or she will have chances of business success based on the overall Government environment.

Mr. **Staggers**. I guess my point is that for a small business that is starting out, many of the safety features and the environmental features—you mentioned the EPA—will in the long term benefit the small business. If in fact you turn on the faucet and you have contaminants and you're going to die of cancer, that small businessman is going to have health costs that will far exceed any of the benefits that he may have gained in his product.

Also, as I mentioned, most of the mandated benefits are exempting the small businessman. That's why I talked about wanting to get something of a return as a taxpayer if we're going to make the expenditure. If I'm making a general type of decision and next year that corporation is going to be moving offshore anyway, why should I make that decision? I'm not getting anything in return.

I would also reemphasize that I think all of us benefit from investments in our infrastructure and our education system. And to say that lower taxes is the only way to go, that we don't need these types of things—I think eventually, if you look at our competitors, if they be small businessmen in Europe or large corporations in Japan, those governments are making those policy decisions to educate their young people. I think particularly for this group of people that we are discussing today, education is going to be one of the things that will help them enter the workplace. In isolated rural areas, the infrastructure can help them to overcome. That's my point. Thank you.

Mr. Chairman, you do such a good job and you're such an advocate on these issues that I felt compelled that I had to learn something from you and I felt compelled to come onto the committee, and I appreciate my selection to be here. I've worked on these issues a lot, as you know, and it will be a pleasure to work with you in the future. Thank you.

Chairman **Leland**. Thank you. I appreciate those kind remarks.

Mr. Herger, would you like to say a word or two?

Mr. **Herger**. Mr. Chairman, I want to thank you for being so gracious. I'm looking forward to serving with you and the rest of the members of this committee.

Chairman **Leland**. Thank you.

Mr. **Herger**. Thank you again.

Chairman **Leland**. The gentleman from Oregon, Mr. Smith.

Mr. **Smith**. Thank you, Mr. Chairman.

Mr. Swain, what percentage of loans that you make in the SBA are guaranteed loans versus direct loans?

Mr. **Swain**. Mr. Smith, I believe that at this point something in excess of 95 percent of the loans that we make are guaranteed and a very small number—I think in this current budget it's in the neighborhood of $80 million that are direct loans, and about $3.1 billion in guarantees. So clearly, most of our lending activity is through a guarantor.

Mr. SMITH. Well, I agree with you. I think the SBA has had a spotty record in the past as a direct loan organization. While they've done some very good things, their record as a banker is not good, and I agree with you that if you're going to begin screening people, then a Government agency is probably the last place you want to look to do that because it's always expensive and the fruits of it usually are not the best.

The loan guarantee question, then, has been accepted in general by banks? You don't find resistance?

Mr. SWAIN. I think there are about 15,000 banks or financial institutions in the United States. As Mr. Gray alluded to earlier, we now have the ability to do business with S&L's and credit unions as well. I think the SBA does business with about 1,500 banks, and with about 700 of those banks we do such a regular amount of business that they are so-called "certified" or "preferred lender" banks, which means that they have the decision on a loan turnaround in 5 working days.

The SBA does not do business with every bank in the United States, but I think that's more a management decision that's made by a bank, that either they're going to emphasize—there's some training cost for the banks on how to work with the SBA system, but we are always in the business of trying to recruit more banks into our program. I think now that we're 2 years past the dramatic budget proposal to completely eliminate the programs, which of course got no receptiveness up here in Congress, the banks are again realizing that the SBA is here to stay for an indefinite period of time.

We have had less recruitment problems with banks than we did in 1985 and 1986 when OMB had proposed to eliminate the lending programs. Of course, we would go in and a banker would say, "Well, we're not sure whether you're going to be around next year or not, so why should we bother to start business with you?"

Mr. SMITH. Is it generally a 90/10 kind of loan guarantee?

Mr. SWAIN. I'm sorry?

Mr. SMITH. Is it generally a 90 percent loan guarantee? Or can it be more?

Mr. SWAIN. No. The statute—I can't recall exactly what the break point is, but the SBA statute requires us, if the loan is less than $154,000 or something in that range, to guarantee at least 90 percent. For loans between $154,000 and $500,000 we can guarantee less than that, but I think it's no less than 70 or 75 percent.

As a practical matter, our portfolio-wide average is a guarantee of about 83 percent. Frankly, we'd like to get that guarantee level down a little bit because if we're guaranteeing less then we can leverage more money in the private sector.

Mr. SMITH. Has your loan loss experience dropped significantly since you went to the loan guarantee program?

Mr. SWAIN. There is a clear difference between loan losses on the direct loans and the loan losses on the guaranteed loans. There are probably a number of reasons for that, but yes.

Mr. SMITH. So the experience is that in going to a guaranteed loan program you have reduced your losses?

Mr. SWAIN. Well, yes. I also should mention that by statute the direct programs have been targeted to some groups where we might expect losses to be higher. We had the so-called Economic Opportunity Loan Program for a while where the statute basically called for us to forget about collateral requirements. Our direct loans now are probably principally targeted to handicapped and veterans. I'm not sure that we have enough experience under those programs to make a definitive statement, but by definition the direct loan program is sort of targeted to an inherently riskier group from a loan portfolio standpoint.

Mr. SMITH. Sure.

You mentioned that you thought the secondary market was an incentive for banks to take these loans. I suppose it is, except I think you will agree with me that the secondary market is only for the highest quality loans. That's the only way they can sell them. So the package of secondary markets takes the highest quality loan and can be very selective about the rest.

So I'm wondering about the incentive, other than that it has to pencil out for a bank to take it. That's my question.

Mr. SWAIN. Well, I'm not the greatest expert on this issue because it's not the program that I run at the SBA. There are a variety of fees that banks are allowed to charge when a loan is closed, so there is an initial incentive there to some degree.

Second, I think the secondary market from our perspective has worked very well. I believe that currently about 60 percent of the new loan commitments are sold into the secondary market. In States like Texas, because of the idiosyncrasies of the State banking law, it's sometimes more difficult—or makes better sense to try to get more liquid in a hurry—the use of the secondary market is quite high.

There is probably some truth to what you say, that people that purchase and package and create the secondary market do exercise some degree of judgment. On the other hand, there are reasons, as you know, that a banker decides to keep a loan. It is, in effect, a Federal guarantee which adds to his balance sheet when the comptroller comes around to take a look at where his deposits are and where his assets are.

But if I could say one final thing, I think your question illustrates the basic schizophrenia that underlies SBA lending policy because on the one hand we're supposed to make loans to people who cannot get credit elsewhere; that is, the loan recipient is admittedly of greater risk; but on the other hand the law calls us for making loans where we have a "reasonable expectation of repayment." If we draw the line too close to that pole, then we become accused of being nothing but bankers disguised as Federal employees. If we go too much toward the pole of people who cannot get credit elsewhere, then we come into criticism for being too sloppy with our lending practices and losing too much money for the taxpayer.

So there is a broad middle area that we're always——

Mr. SMITH. Sure. And I really want to get to that and I'm leading to it.

My experience with FmHA, for instance, is that simply a 90-percent guarantee isn't sufficient for a bank to take the loan, so in my State they don't take any because they don't want to lose 10 percent. So the point remains—and as a result of this discussion today, if we're talking about venture capital for new entrants into business and they go to bankers, they'll never get a loan. I wouldn't give them a loan. I don't want to lose 10 percent of my funds.

So the question comes—possibly there ought to be a place for some sort of program like the Student Loan Guarantee Program, the way it works, where a bank is held harmless. Leave them in the decisionmaking process of screening, because that's what they're good at; we've gone through the Government agency issue. But for a percentage or a part of the portfolio of the SBA, set up a system whereby those loans are fully guaranteed so that the bank can make a buck without—recognizing these are going to be the loans that likely have the greatest failure opportunity—but give them the opportunity to take the loans when they would certainly never take them. I wouldn't take them as a banker, and neither would you as a person of judgment.

Do you see any possibility of that kind of scenario being built into the system so that if we're really getting to the question that, you know, everybody ought to own a rickshaw, at least somebody is going to loan them the money to do it?

Mr. SWAIN. I think I would draw a major distinction between the FmHA and the SBA. It seems to me—in the sense that FmHA loans are so affected by the weather, they're affected by the price of——

Mr. SMITH. I don't mean to get into a discussion with you about comparison. I only used that as an example.

Mr. SWAIN. We have a preferred lender's program; I think there are about 200 banks in the program. Under the preferred lender's program we completely cede over to the bank the absolute right to bind the Government to an SBA guarantee. In other words, a person walks into the bank and says, "Can I get a loan?" The banker says to you, "Well, I don't know you. You have no credit history so I'm not going to give you one of my own, but if we can get an SBA guarantee then I'll go ahead and give you the loan." So at about 200 banks in this country we completely cede over the right to bind us to a loan commitment without even calling us up on the phone first.

And what does the bank do in return for that? The bank agrees to take a guarantee of only 75 percent. We have a demand for that program. We have found 200 banks in the United States that are saying,

> We'll put 25 percent of our money on the line and take your guarantee of 75 percent as opposed to the 90 percent we might be able conventionally if we went through your whole more lengthy process, because we think the loans are of good enough quality that we will take a risk and put them in our portfolio.

So I'm not sure that I can agree just based on my observation of the way the lending program has evolved over the last several years, but we are making more credit decisions. We do find no particular lack of interest by the banks in participating in these decisions. It's when you get into the high-risk client that, as you say, you don't even want to get a 99-percent guarantee because you're reluctant to put even 1 percent of your own money on the line. That's a particular sort of problem that I think the committee is attempting to address in this hearing.

Mr. SMITH. Exactly. That's the point. If I am unemployed and I'm black and I'm in Houston, and I go to the bank and I have no money but somebody says to me, "Well, we can offer you an opportunity to go to the bank for a 90-percent guaranteed loan," I'm not going to get a loan. And I'm not going to get a loan if I'm white and unemployed in Oregon without any experience, either. So it doesn't apply equally.

The point is that—you're not a welfare institute, either, and that's the narrow line that you have to walk except that it seems to be that going to a 90-percent guaranteed loan program shuts out the very people we're talking about. I don't think that they can ever qualify.

Chairman LELAND. If the gentleman would yield?

Mr. SMITH. I will yield.

Chairman LELAND. I agree wholeheartedly with him. The twist, though, is when Mr. Friedman talked about setting aside a 1-percent set-aside among existing Federal programs that are deemed as economic development programs. I expanded on that to some extent just off the cuff, trying to rationalize the whole idea. I think it's a great idea.

The reason I used the $15 million example from Houston and their willingness to go into a $100 million convention center/hotel is because those moneys are designed to be used for the purpose of economic development, with the view that they are Federal dollars that will be given to some kind of opportunity for economic development. Why not use at least a portion of those moneys to pay a bank providing that they are also held harmless in a situation where they would go in and administer whatever balance of funds they would have for the purpose of setting up these micro-enterprises, where the high-risk people who would not otherwise normally get loans go in and apply.

I don't see where, in the conventional sense, these folks are going to be able to get any loans anywhere. But if we do this set-aside, just possibly we'll have some opportunities, whether it's a white person in Oregon who is unemployed or a black person in Houston. The same principle would apply.

Mr. SMITH. I'm not suggesting another entitlement program either, very frankly, but I do think it might be worth investigating, the question—if you brought your own losses down, which you have and reasonably so—as you know, if a bank doesn't lose 2 percent of the money it loans every year it's considered too frugal. If it loses 5 percent it is considered too liberal. Loan loss reserves are pitted against those provisions and they float back and forth.

Certainly, SBA must answer its charge to be an opportunity for people who couldn't get a loan anyplace else. And yet, going to this totally guaranteed program I see us shutting out the discussion that we're having today about how you start venture capital with people who are unemployed and with no experience, and there's no way you can do that unless you change the program. Not increase the nut; very possibly, use some of the savings you've made in your low losses as a set-aside program for this kind of thing.

Mr. SWAIN. I agree, Mr. Smith, and our statement says that the loan programs that we have on the books right now are probably not well suited for start-up firms, especially those which simply require what Mr. Friedman referred to as seed capital. We plead guilty to that.

Mr. SMITH. Well, you're not in the venture capital business, and are not directed to be.

Thank you, Mr. Chairman.

Chairman LELAND. Mr. Swain, I'm getting a little bit excited about the whole idea of using existing funds. Mr. Smith suggests that he doesn't agree with an expanded universe with any more entitlement programs. That's probably a good philosophy to hold right now, particularly with the budget constraints that we have and the problems that we have with some of the entitlement programs already.

However, at the same time, if we can be a little more creative—I guess I'm addressing this to both Mr. Friedman and Mr. Swain—if we can use those moneys that are already allocated for that purpose; for instance, with the downtown convention center/hotel. It happens to be a pet peeve of mine right now. It is stated that the reason that it qualifies for community development funds—now, these are separate and apart from UDAG funds, I might add; these are economic development funds—is because the downtown convention center will provide jobs for the people in the hotel. Plus, once the hotel is built, jobs will be provided. The jobs that they are talking about for the most part are maids and custodians, clerks, and so forth. So these jobs are very important to the scheme of employment in the city, without question, but at the same time these funds do not necessarily address the long-term opportunities which we are talking about micro-enterprises providing.

If in fact we would take said portion of those funds and set up the same kind of thing that we're talking about, providing for a venture capital pool, if you will, for SBA or whomever to draw on to provide this start-up money for these micro-enterprises, is that a good thing? Is that possibly a good opportunity for us? Is that something that we ought to address? And by the way, it sounds like an incredible Republican idea or ideal, if you will, taking these poor people and putting them in the free enterprise system, getting them off welfare, making them taxpayers, and, they've become great examples of what the Republicans have told us we ought to be advocating these days.

By the way, I'm beginning to buy off on these things. But if we take some of this welfare money and do that, I'm all for it; my problem with the Republicans for the most part is that they want to reduce the amount of those welfare funds. And until we are able to use a great portion of those welfare funds for venture capital to get these poor people in these micro-enterprises, we must maintain existing assistance programs.

Mr. SMITH. You are steering away from the subject, Mr. Chairman. [Laughter.]

Chairman LELAND. Well, I just—he used a Massachusetts example; I was just wondering if maybe even Massachusetts is deviating a little bit from its Democrat ideals, as my friend would say.

What do you think about this, venture capital from the so-called welfare funds, the economic development funds? It's your idea, Mr. Friedman.

Mr. **Friedman**. I really regard what we're talking about as investment for which you ought to expect a return. You may take that return on a different basis. We're talking about access to capital and not necessarily the cost of capital. The problem is that the money is not available, almost at any cost. I have talked to a private banker at one of the major national banks who thinks he can actually make money by funding low-income entrepreneurs. Now, he has a little problem with the usury ceilings in some of the States given the rates that he wants to charge, but in a lot of the cases the issue is access and not cost. Even if you look at the Third World programs, the interest rates are often quite high.

I think you should expect a return. I think you should look at a variety of different institutions as being the providers. I'm not certain that the banks are the right one; I certainly wouldn't put all of my effort into looking at banks as being essentially seed capital providers. I think they're not oriented in that fashion, although banks have participated with WEDCO in Minneapolis-St. Paul; with Coastal Enterprises in Maine; with Women's World Banking in West Virginia; with Accion International in Arizona, and now in Texas, on precisely these kinds of loan programs. So I think there is an opportunity to deal there.

I think anyone who is making loans should be on the line, should have some exposure. I don't think you can hold the deliverer free, whether that's a community group or a bank or a savings and loan or a credit union. You have to have some guarantee that your money is being well disbursed.

I guess my sense too is that just because someone is unemployed does not mean he or she is without talent. A lot of dislocated workers have a long work history and often what self-employment means is taking a talent that they've acquired, either on the job or sometimes as a hobby, and moving it as an income-generating source.

I think there's a lot we don't know in this whole area. I think there's a lot of opportunity out there. I really believe that there are bottom line returns to be made from these kinds of investments in people, and the problem has been that there has been no source for those kinds of investments, or maybe better stated, those kinds of investments that are made in the mainstream community routinely by our parents and other institutions are not necessarily being made in low-income communities or communities hard hit by dislocation. And what we're searching for is a way to provide those kinds of resources, to develop appropriate screening mechanisms, to really use peer group knowledge and pressure, to ensure that the right kinds of decisions are made.

Chairman **Leland**. Very good.

Mr. Swain, any last comments?

Mr. **Swain**. I don't have anything further to add, Mr. Chairman.

Chairman **Leland**. Very good.

Let me thank all three of you gentlemen for your participation today. Thank you so much.

I would now like to call our final panel to the witness table: Ms. Paula Mannillo, Ms. Jane Reeves, Mr. Jay Rossier, and Ms. Wilma McDaniel.

Ms. Mannillo is the director of finance for the Women's Economic Development Corporation. She also developed WEDCO's loan fund. In addition to managing the program's loan operations, she trains participants in loan packaging, recordkeeping, and financial management.

Ms. Reeves is the proprietor of Made By Jane In The USA, a women's sportswear clothing line. She is a single mother of two who, prior to participating in WEDCO, spent 3 years on and off public assistance rolls. Through WEDCO she obtained financial support to purchase her materials and management training, crucial to establishing and maintaining her clothing business. She no longer receives public aid, and, last year, she made $30,000.

Mr. Rossier sits on the board and is a staff member of Self-Help Association for a Regional Economy, located in Great Barrington, MA. He is the coordinator of SHARE's fund for affordable housing, a low-interest, second mortgage pool for first-time home buyers. I would like to note that he also worked with the E. F. Schumacher Society, a nonprofit educational organization that promotes local economic development with local resources.

Ms. McDaniel is the director of operations for the Small Business Venture Program, administered by the WAMY Community Action Agency. The agency where she has worked for the past 13 years is located in Boone, NC. Her program, which operates on the principle that an antipoverty agency should foster self-sufficiency among its clients, serves the residents Watauga, Avery, Mitchell, and Yancey Counties, which are in the northwest region of the State.

Welcome, all of you.

If you will, you may proceed in the order in which I introduced you. Thank you so much for being here with us at today's hearing.

## STATEMENT OF PAULA MANNILLO, DIRECTOR OF FINANCE, WOMEN'S ECONOMIC DEVELOPMENT CORPORATION (WEDCO), MINNEAPOLIS, MN

Ms. **Mannillo**. Thank you, Mr. Chairman. We appreciate being invited here to talk about something that is very near and dear to our hearts, obviously, since we do it every day of our lives. Microenterprise development is the nature of the beast of what we do at the Women's Economic Development Corporation.

I have provided some written documentation for you. I am much better at being a storyteller than a reader, so I prefer just to tell my story, if that's all right.

Chairman **Leland**. We will enter all of your full statements in the record. We appreciate summaries and stories, if you will

Ms. **Mannillo**. I was asked to address several different issues. I will start with, what was our motivation to start?

The reason WEDCO was started was because it became obvious to several women who work in the State of Minnesota, with a lot of different women, that the overwhelming issue in the 1980's and 1990's for women seemed to be the feminization of poverty, that more and more the people who are living in poverty are women and children. Secondary to that was the fact that it didn't seem like we were making hardly any progress as a sex as far as being able to earn an equitable amount of money. We still only earn 65 to 67 cents for every dollar that males earn. We earn less money in every kind of job for every kind of employer at every kind of educational level in every kind of industry. It just doesn't make any difference; we just earn less money, and there doesn't seem to be a whole lot of progress in the last few years or in the last decade, that we're making progress as employees.

So it looked to us as if one of the potential ways we might change that was to look at the issue of becoming self-employed or starting our own small businesses.

We looked around—"we" being the founders of WEDCO—looked around and looked at what was currently out there, particularly for underemployed and unemployed women. What was out there were various kinds of training programs that were somewhat successful, but mostly unsuccessful, because they trained people for jobs that didn't happen or weren't there in the first place; or secondarily, they trained them for jobs that could come nowhere close to replacing the kinds of benefits that they might get if they were on AFDC. They have to earn somewhere over $8 an hour, closer to $9 an hour, to be able to replace Medicaid and child care benefits, subsidized housing, transportation, all these things on top of the grant. It's very difficult to do if you're trained for a job that pays you $4 an hour.

So we looked at whether self-employment could really work with people who are unemployed or underemployed. The charitable class that we were set up to work with, according to the IRS definition, was "women who made less than $15,000 a year." Unfortunately, that was not very hard to find. A good 80 percent of the women we've worked with over the last 5 years make less than that; half of them make less than $7,500 a year. Only about 20 percent have any kind of public assistance. Most of them are working poor.

We work in the State of Minnesota. We primarily serve the Twin Cities area because of the nature of the situation. It's a very intensive kind of situation; we have a lot of contact with the people that we work with, and distances make it difficult. We do have a number of people who live in greater Minnesota, but it's probably not more than about 10 to 15 percent of the clients. We have worked with over 3,500 women over the last 5 years. There are now 10 of us; for a long time there were 5 of us working with the people. About half of them decided to pursue and keep going and get into some kind of venture, and half of them decided not to. That half we consider just as much of a success as the half that goes in.

We have over 600 business start-ups and somewhat close to 400 business expansions in that time.

Our program operates in such a way that you start with—we used to call it "orientation," now we call it "Start Smart." It's a program where you come in and you learn about what it takes to be an entrepreneur, what kind of personality you have to have, what the obstacles are that you are going to face, what it is going to be like, and what WEDCO as an organization can do to help you with it. Approximately half of the people who come in decide right then and there that it's not the right time for them, they don't have the right resources, they don't have the right idea at this time, and they do not choose to come back.

Our program is exclusively self-screening. It's always the participant's choice whether they continue or not. Sometimes we help them to make the decision, but it is their choice. After that, we ask people to come for an initial interview, and they describe to our intake person what kind of business they want to be in, how far they've come, where they stand, that sort of thing, and she in turn negotiates a fee with them. Everyone pays some kind of fee. The top fee is $60 an hour and the bottom fee is $1 an hour for women who are on AFDC.

Once they've been through that they either go into one of our programs called "Business Clinic" where they go through a joint group effort working on a marketing plan, or they go to individual consulting. In the individual consulting we would also work with them on the target market, on the competition, on promotion strategies, on their pricing, distribution, all those issues. We put everyone through doing cash flows; everybody who leaves WEDCO has their own little cash flow under their arm. We help them do loan packages, and in some cases we act as a lending agency.

That brings me to the next point. We do have loan funds that we administer and run and do all kinds of things with. We have $1.2 million in those loan funds at the moment. Some of it is dedicated specifically to our Self-Employment Training Opportunities Program, which is for women who are on AFDC. Some of it is in a seed capital fund, and some if it is in something we call a growth fund.

The fund that has been the most active is the seed capital fund. It is the one that is like what you have been addressing primarily as venture capital today. We call it seed capital because we look at it as planting a seed and getting people started so that they can grow into mainstream economics and eventually move into the mainstream.

We had a relationship with First Bank when we first started out, which is the largest banking institution in Minnesota. It was an excellent relationship for a while, primarily because of several key personnel in the bank that were extraordinarily good at listening to a situation, doing some creative thinking about it; and whenever we'd run into a stone wall they would do some lateral thinking and think of another way that things could work. With that kind of supportive relationship with the bank we were able to do a lot of negotiating and trading and getting them to take creative collateral and things like that.

We probably placed over 100 loans with that bank and a half a million dollars worth of money in the 2 to 2½ years that it was a very close relationship. Since then, due to various things in the banking industry and deregulation and changes in how they see themselves as a bank, things have changed a lot and we don't have that good access that we had before. It's a disappointment because that was something that was very important to us. It gave us some access to mainstream capital which we need to have.

Right now our seed capital loans, our last resort, must go through the whole process of preparing a business plan, cash flows, loan package, et cetera. They must be turned down someplace else. We are primarily dealing with people who have no credit history or a shaky credit history, frequently as a result of a divorce. We deal with people who have very little as collateral. We take unusual things as collateral; absolutely no children, however. [Laughter.]

We do take bicycles and pianos and geese and horses and all kinds of weird things, but no kids.

Chairman **Leland**. You're serious about that? You take bicycles and horses and——

Ms. **Mannillo**. Yes. I'll take just about anything as collateral.

What we really have as collateral is the relationship, the relationship with the person, because we have a long-term kind of building up to getting to the loan place where we get to know the person, know what kind of person they are, know what their abilities are, know what the chances are that they will pay us back, et cetera. And we continue the relationship after they get the loan. It is not a "get the money and run" situation; it's a "get the money and then keep coming back on a regular basis" and checking up, and we help them with the next stages. Sometimes the most frightening time for a small business owner, particularly a woman who is getting into it, is when she does get the money. They always think it's the worst until you do get the money, but sometimes it's worse after you get it because then, all of a sudden, all of the planning and all of the things that you've thought about and dreamed of you have to do, and that's more frightening than planning it by a long shot.

So the ongoing relationship and the very excellent business consulting that we do I think are the prime things that make us successful at this.

This leads me to my next point. Why have we been successful? I think part of it is that we encourage hands-on, experiential learning. This is not a situation where the person comes in and says, "I need a marketing plan. Do one for me." Or, "I need a cash flow. Would you please give it to me?" This is a situation where they come in and say, "I want to do this kind of a business, and I know this about it," and we give them the questions that they need to ask. We help them set up the tasks that they need to address in order to become successful business people, and they go out and do the homework; they go out and do their market surveys; they go out and do the research about how much it's going to cost per square foot for manufacturing space, that sort of thing. Then they come back and we work as a team to put together the plan and the cash flows and so on.

We also help people be very, very realistic about assessing the economic viability of this business that they're going to take on. A lot of programs that are set up ostensibly to help women concentrate strictly on self-esteem and making them feel better about themselves. We certainly do not neglect that; we think that's a very, very important part of being able to move from a dependent state to an independent state, to be more in control of yourself and have more self-esteem. But we also link that with picking something to do that makes sense, that you're going to be able to support yourself and your family out of down the road.

I talked a little bit about self-screening. It's just as important to prevent a failure by encouraging someone not to start a business who doesn't have the commitment, the desire, the passion, the existing skills, et cetera, that it's going to take to keep going on a business.

We encourage people who have good problem solving skills, who are able to think laterally; when they get started on something and they come up against a brick wall, instead of being stopped—it seems to me the absolutely most important factor an entrepreneur needs is that persistence, that you don't get stopped when you run into a brick wall. You figure out a way to go around it; you go this way or that way or whatever to get through.

Sometimes people that I have thought didn't have a prayer because of the kind of thing they were starting out to do—it's sort of the "pet rock theory" that Bob talked about—end up being the ones that have that spark, that have that capability to figure out a way around the obstacles that come up. Those are the ones that end up being successful. And I think that to do this kind of endeavor successfully you have to have the two sides. You have to have the excellent technical assistance business consulting and access to capital. They have to go hand in hand. One without the other does not really do much good. It only sets up more failures than it will set up successes.

The obstacles we've had, the obstacles for any kind of a program like this, is that you really need to have good consulting. There are a lot of business consultants out there; not all that many of them are that good. Some of them are, but most of them lack a lot. It turns out that most of our staff, eight out of ten of our staff members are small business owners themselves, either in the past or else they currently have a small business going. So each one of us knows that feeling of waking up in the middle of the night and thinking, oh, my goodness, how am I going to make the payroll tomorrow? It's that sort of thing that you can't know if you haven't ever done it.

We have difficulty over and over and over again with funding ourselves. I heard people say this morning that you shouldn't put money into intermediate agencies. Well, the intermediate agencies like us are the ones that make the seed capital really work. If we don't have any funding to keep ourselves going, there's not going to be any way that the seed capital is really going to turn over. It's becoming increasingly more difficult to raise funding for our own internal organization. We get it right now primarily from corporations and foundations. We have not had any Government support. We seem to sort of fall between the categories; there's no place that we fit very well in Government things.

We look at what we do as providing opportunities and choices for people, that they become aware of having some choices when they've felt for a long time that they have none, that they were in a dead end situation.

I think that the thing I would like to emphasize about this is that this is really a change in the whole economic structure, and it's going to take time. We need a longer time period than most people are willing to give it. It is going to take time. We've already been at it 5 years and I think it's going to take another 10, easily, before real major changes happen, even though we've already got 600—close to 1,000 if you count the expanding businesses—going in 5 years.

Thank you very much.

[The prepared statement of Ms. Mannillo appears at the conclusion of the hearing, see p. 91.]

Chairman LELAND. Thank you.

Ms. Reeves, will you identify yourself for the record, please?

## STATEMENT OF JANE REEVES, PROPRIETOR, MADE BY JANE IN THE USA, MINNEAPOLIS, MN

Ms. REEVES. I am really glad to be here today to talk about how WEDCO does work. I am Jane Reeves; as you said, I am the sole proprietor of Made By Jane In The USA, which is a women's ready-to-wear clothing company.

I am in charge of everything, from designing to producing to marketing to advertising, overseeing the sales and production, bookkeeping, customer relations.

The reason that I started the business was because I was trying to raise two kids and work full-time outside the home. I was commuting 3 hours a day, and I burned out. I was spending a total of about 1 hour a day with my kids. My job was an hour from home so I had to get up every day at 5 a.m. in order to get there at 7:30 in order to get my school-age child to latchkey and my preschool-age child to day care, get to the job, work 8 hours, go back, do the whole thing again. The final straw was when I went to pick up my daughter one day and she called one of the instructors "Mom" at the day care, and not me. Being close to my children and raising my children was just something that I was going to do, no matter what; I wasn't interested in being a career person while they were that young.

So that really was the final clincher for me, that my daughter thought someone else was her mother. She was about 1½ at the time.

I think you stated that I was on and off AFDC for 3 years, but it was really 1½ years. I just wanted to make that point.

So after I got to a point where I decided I didn't want to do this any more, I started to think about something that I had always done——

Chairman LELAND. Can I interrupt you right there?

Ms. REEVES. Yes.

Chairman LELAND. Can you make a statement, just a very simple, concise statement, about AFDC for that 1½ years?

Ms. REEVES. I'm leading up to that.

Chairman LELAND. OK. Very good.

Ms. REEVES. My monthly expenses that I had at that time exceeded the amount of money that I made at my job. I was paying $500 a month in day care so that I could be at work, and it was a real Catch 22 because I never had enough money to do any of it. So it was almost better for me not to work.

The statement about being on AFDC, that's it. It was humiliating and it was a lot of bureaucracy. It just didn't work. It just didn't work. A lot of times my check would be cut because I wouldn't get my pay stub in on time, because I wouldn't receive my pay stub on time, and then I wouldn't get my check on the first of the month; consequently I couldn't pay my rent, then I would get a

$75 late rent fee. The whole thing was sort of a constant snowballing of problems the whole time I was on it, which led me to quit the whole thing. I was just fed up, and I took my last paycheck and I went and bought fabric and I stayed up for about a week, working for about 16 hours a day, and created about three dozen garments. I took them to three different stores in the Minneapolis-St. Paul area and sold them, got my money back, paid my bills, and that in a real small sense is sort of how the business started. I just took that first risk and just took all my money and put it into it.

I ran the business for a year after that like that, where I would purchase fabrics, have things manufactured, sell them, take that money and reinvest it back into the company, the whole time staying on AFDC because I still wasn't making enough money to meet my monthly expenses. My ex-husband was not giving me any child support at the time.

The way I linked up with WEDCO was that I decided I needed more business knowledge than I had in order to expand and I needed financing in order to expand because in the apparel industry you are oftentimes working in three seasons at once. You need your money now and you don't get it until later. So I went to WEDCO; they listened to what my idea was. We sat down over a 3-month period and developed a sound business plan. It took time. I mean, it was something I really had to work at. I didn't just go in there and sit down and say, "This is what I want to do; I need this money." It wasn't that simple.

So over a 3-month period we went over financing, marketing, advertising, pricing, sales, accounting, all aspects of being in business. We developed a business plan, then it was submitted to the WEDCO Loan Fund Committee. I got a seed grant of $3,900 with which I immediately went out and bought more fabric and just kept reinvesting back into the business.

I think the major obstacle that I can see with being in business is not only the financial end of it, trying to come up with money to constantly keep growing and keep going, but it is also that traditional lenders will not give you the money. Even the fact that I have a good track record and have had good sales for 3 years now and good credit—banks still will not lend me money because I don't have collateral and because they say the business is too young. They just won't do it. So with the help of WEDCO I was able not only to start the business, but I am working with them now on factoring. I am able to keep the business going at the level that I can handle at this point in time. But there will be a time in the not-so-near future that I will need more money to grow further.

So that's why WEDCO works for me.

[Material submitted by Ms. Reeves appears at the conclusion of the hearing, see p. 98.]

Chairman LELAND. Very good.

Mr. Rossier.

## STATEMENT OF JAY ROSSIER, COORDINATOR, FUND FOR AFFORDABLE HOUSING, SELF HELP ASSOCIATION FOR A REGIONAL ECONOMY (SHARE), GREAT BARRINGTON, MA

Mr. ROSSIER. My name is Jay Rossier. I am here representing the Self Help Association for a Regional Economy, known as SHARE, located in Great Barrington, MA.

I want to thank you, Mr. Chairman, and the entire committee and the staff for the opportunity to be here this morning.

SHARE is a small loan collateralization program, addressing a couple of issues that have been discussed here this morning as far as access to capital. SHARE takes very small pieces of local capital and puts it to work collateralizing the loans for people who have no credit history or whose loans are just too small for banks to deal with. Small or no, the 14 loans that SHARE has made so far have resulted in 14 new businesses that now employ about 40 people. None of these loans has been more than $3,000; mostly the have been $1,000 to $3,000 loans, and the success rate of these loans has been 100 percent. There have been no defaults to date.

SHARE started with a group of concerned people in the community. Great Barrington is a small town with a surrounding rural community of about 50,000 people in the western part of Massachusetts, in Berkshire County. Originally there were a group of people in town basically comprising two different interests. One were small business people who knew how hard it was to get credit to start a local enterprise, and the others were people with a little more money who wanted a place for socially responsible investment, a place to put their money where they knew what it was doing, that it was being used for good purposes to produce good things. These people firmly believed that the way to develop the most flexible and most sustainable economy is to deal on a regional basis, for small businesses in the region to produce for local consumption.

So SHARE was created as a nonprofit membership corporation to collateralize loans for these purposes, first and foremost to—strictly production loans; some service loans, but things that were going to be used locally, that were produced locally with local materials. And beyond that, things that were produced in good environments, that were quality products, environmentally sound products. So these are the collateralization criteria that this original group came up with.

It's an extremely simple program that operates with almost no overhead whatsoever, with an entirely volunteer staff. I'm here as a member of SHARE and as a volunteer who works in the office with potential borrowers and depositors.

Becoming a member of SHARE is as simple as going to the Great Barrington Savings Bank and opening up a 90-day notice passbook savings account that earns 6 percent interest. You are a member of SHARE who votes for the board of directors and you shape the loan collateralization criteria.

There are 70 members of SHARE now. It was originally thought that these would be people with money who wanted to put it somewhere that they knew it was doing good work; but as it has turned out, mostly poor people have been depositing in SHARE and have been scraping what savings they have to put in the $100 minimum deposit because they see that SHARE is helping people like themselves. It is a way to be involved, to participate in this. Their money is not pooled in a vast pool that is siphoned off to urban centers or large borrowers, but it is a significant contribution to new rebuilding of the economy in the area.

When a collateralization application is approved, the applicant and a board member of SHARE go to the bank, carrying with them enough passbooks to stand as collateral for the loan. Now, these—the depositors fully own their deposits, but SHARE is named on the account and the depositor contracts with SHARE to allow this deposit to be put up as collateral for loans that the bank would not ordinarily make but that meet SHARE's financial and ecological and social criteria.

So how does this work? We've been talking about screenings. SHARE is a program that relies on the local community. SHARE works, and it is 100 percent successful so far, I believe, because of its local scope and because of its structure that puts the risk on the members of the community. The bank does the paperwork. The loans, by the way—the bank charges 10 percent interest, which is pretty low for a business loan at this time. The bank keeps the 4 percent difference that is spread over the cost of the loan, and the risk is on SHARE on these deposits. So when someone comes in with a proposal for an enterprise—a farmer, for instance—SHARE knows the people in town with the financial expertise, people who are involved with food, other farmers, perhaps, who can make recommendations on this proposal to see if it will work at all in the first place. That's where the very informal technical assistance comes in.

On the other end, the people that are investing in these businesses are right in town. With 70 people out there, they're all buying the products that their money has helped produce and they are encouraging their friends to do the same.

So SHARE is successful, we believe, because it is such a human organization. As in WEDCO, it's the personal relationship with your bank, and this can only be done with such a small, local program.

So SHARE's main concerns are a local economy and access to credit, and believes that the two go hand in hand.

There is an interesting program going on in Massachusetts right now through the Department of Agriculture that is issuing vouchers to single women that are redeemable only at farmers' markets for fresh fruits and vegetables. In this way those vouchers do two things at once. The women are getting the fresh fruits and vegetables, and they know that that money is going directly into the pockets of the small vegetable producers when they come to these farmers' markets, not the supermarkets where the money goes out to buy produce from California or wherever.

SHARE's interest in this in particular is that it is a good way to get local business going and produce a driving regional economy. That voucher, for instance, was again redeemable in town for feed or fertilizer or whatever the farmer needs in order to produce; it would circulate one more time and create that much more business in town. The more times that thing could circulate, that currency, the better it would be for the local economy. If these things were ultimately redeemable—if you could pay your taxes in the State with them or something—that might provide the kind of confidence they need for them to be accepted.

So those are SHARE's main concerns, access to credit and a regional economy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rossier appears at the conclusion of the hearing, see p. 101.]

Chairman LELAND. Thank you.

Ms. McDaniel.

## STATEMENT OF WILMA McDANIEL, DIRECTOR OF OPERATIONS, SMALL BUSINESS VENTURE PROGRAM, WAMY COMMUNITY ACTION AGENCY, BOONE, NC

Ms. McDANIEL. My name is Wilma McDaniel, Mr. Chairman. I thank you for the opportunity to be here today and to share with you information concerning a couple of the programs operated by my agency.

As you noted, we are located in the northwestern corner of North Carolina. That area is mountainous and isolated; the largest town in our area has some 12,000 population. Our economy is depressed. Unemployment is high and wages are low. Our area's educational levels are low, and our poverty rate is high.

On passage of the Community Services Block Grant Act in 1981, our agency was encouraged by State officials to develop programs which would have a significant economic impact upon the lives of poverty-level families. Lack of employment opportunities in our area was what prompted us to develop what we call our "self-employment project component." Through that effort we utilized CSBG funds to purchase equipment, materials, and supplies necessary for small income-producing projects.

Now, this assistance initially was all in the form of grant assistance. We were not making loans initially. We provided staff counseling and advice for those projects. These included such things as lawn care, craft production, small truck farming projects, house painting, small type projects.

In 1982 we felt we were still spreading our resources too thinly. We were trying to serve too many clients, so we decided that we needed to serve fewer clients but with more assistance than we had originally provided. We started out in 1981 and 1982 with about an average of $200 per family. So in 1983 we did reduce our number of clients in the self-employment projects and we initiated a new program component, our Small Business Ventures Program. We decided to make that a loan program for two basic reasons. We felt that client dignity is preserved more through the opportunity to repay assistance received. We thought that was a very important fact. Also, the program can perpetuate itself through the repayment of these funds.

Under our regional program design, our loans were actually made by a local lending institution. We used CSBG funds to secure those loans 100 percent. Our staff provided assistance to the applicant, first by developing a simplified business plan. Those business plans were reviewed by a program committee; that committee had the authority to approve or disapprove the loan. The committee also determined the length of the payback period and the amount of loan funds to be received. Our interest was set at national prime minus 3.5 percent, so many of our initial loans went out at about 7.5 percent interest. Some later loans were made at 4.5 percent as the prime came down.

Our staff offered assistance in the start-up, operation, and management of the business. In late 1983 and early 1984, 28 small business clients were approved with just under $160,000 in loan funds released. Two additional clients were approved in 1986, bringing our total to 30.

The small business that we have funded include a tree care service, a coffee service, service station, wooden toy production, shrubbery sales, and a variety of others.

In 1986 we modified our self-employment component to include some no-interest loans.

All of our clients must be below the poverty level. For those clients within the top 20 percent of eligibility, we begin offering loans. Those with lower incomes are still offered grants for the self-employment assistance. We were delighted that some of our clients that were eligible for grants requested loans.

Since 1986 in the self-employment component we have loaned just over $14,000 to 26 self-employment clients. We have lost approximately $2,000 of that money; $6,000 has been repaid, and $6,000 is currently outstanding.

Since 1983 we have served a total of 275 self-employment clients; 185 of those have increased their income by more than 25 percent, and 68 families have been brought above the poverty level. Of the nearly $160,000 that we originally utilized to secure loans in our Small Business Ventures Program, just under $52,000 has been either forgiven or lost, $67,000 is currently outstanding, and $47,000 is currently on hand to be reloaned. Through the repayment of loan funds we have been able to use the original $160,000 to actually lend a total of approximately $220,000. With $47,000 currently available, we have translated each original loan dollar to $1.67 of use. Through the repayment of loans we were able to fund the two additional loans in 1986, as well as supplemental loans for eight of our original clients.

Of our 30 businesses in the Small Business Ventures Program, 14 are currently active. We've got 13 currently active loans, with 6 having been repaid in full.

Our program has not been without problems. It is difficult to secure staff with the necessary understanding of business principles and practices who can relate in a positive manner to some of our low-income clients.

We believe that careful client screening is essential to the success of our program. We did not screen very carefully, and we think one of our clients may have moved offshore.

We have learned that the release of loan funds must be carefully controlled to assure its use for planned purposes.

Our original loan amounts were not sufficient for some of the businesses that were approved. For that reason, we chose to make supplemental loans to some of those original clients.

Recently we have assumed the outstanding loan balances of our program. In the future we plan to make our loans direct instead of through the lending institution. We feel the greater flexibility that we can offer the client in their rate payment schedule will be a distinct advantage over a secured bank loan.

In conclusion, we believe that with adequate, continuous availability of resources, our program concept offers the opportunity for a certain segment of the low-income population to rise above the poverty level. We hope that others who operate similar programs might benefit from some of our experiences.

Thank you.

[The prepared statement of Ms. McDaniel appears at the conclusion of the hearing, see p. 116.]

Chairman LELAND. Thank all of you for your great testimony.

Ms. Mannillo, let me first say to you that the Congressman from Minnesota apologizes for having left, but Mr. Penny does want to convey his welcome to both of you from Minnesota.

Once financial services are available to your clients, what are the greatest obstacles to maintaining a thriving business? What problems do they have that are more prominent than others?

Ms. MANNILLO. What problems that the clients have once they have financing? They seem to do quite well as long as they can maintain their businesses as a sole—as a person who does it themselves. A lot of times when they start to add employees they begin to have problems because they've never had to operate as a supervisor or manager of other people, so personnel problems come up frequently.

There are times when a particular product or service will sort of go through a peak period and then die out, and won't have a useful marketplace to sell to any more. Sometimes a client will get hung up on the particular product or service that they started out with and not think about what their options or choices are if that one falls off the map, like the pet rocks did.

The third thing is that when they get to the point where they need to expand to go to another phase, frequently you need to from being an entrepreneur—a person who does do everything yourself—to becoming a manager, and they really don't know how to do that. That is one of the most difficult steps. As we get older and as the businesses get older we're facing that one more and more and more. We're trying ourselves to learn how to teach entrepreneurs how to go from being strictly an entrepreneur to being a manager; or, if they don't want to do that and they want to stay in the entrepreneurial phase, how to do something with this business they had—sell it, close it, whatever is appropriate—and go back and start another entity.

So I would say management and personnel and those kinds of issues are the things they run into the hardest.

Chairman LELAND. Have you determined what incidence of success you have had in pulling women out of poverty and helping them achieve and maintain self-sufficiency?

Ms. MANNILLO. Well, I don't know if I can address that directly. The incidence of success that we have of people continuing in their businesses is excellent; 85 to 90 percent of the people we've been working with are still doing it after this period of time.

Some of them, of course, are still quite young, and I suspect that we will have more fallout as the businesses age simply because of the way the statistics read on small businesses. They change, and people change, and they don't want to do the same thing.

We have been operating the project that was specifically for self-employment for women on AFDC for only a little over a year. It's quite small still because of that; it takes a long time to go through that whole process, so we only have about eight or nine people who finished that process and are actually doing their own businesses. I believe that three of those are totally off of their AFDC grants and the other six or so are still doing a balancing act between how much they bring in and how much they still receive as a grant situation.

Chairman LELAND. Ms. Reeves, you were prompted to seek assistance from WEDCO because of circumstances that you were confronting. You finally realized after—I think I heard you say a year—that you needed some more technical assistance in terms of running your business. Is that not correct?

Ms. REEVES. Right.

Chairman LELAND. What obstacles did you encounter in trying to start your business, other than needing more money?

Ms. REEVES. Do you mean trying to start it, or trying to keep it going?

Chairman LELAND. Well, I guess the better question is——

Ms. REEVES. I didn't have any obstacles starting it.

Chairman LELAND. You just took the money you had and you just went and bought some cloth and started making clothes?

Ms. REEVES. I was driven. The problem for me came when I saw that it was working, and people were saying, "I want this. I want this in my store." I could see how I couldn't be in more than three stores. Then I needed to figure how to come up with not only more financing to produce the goods, but I also needed to figure out how I was going to get the manufacturing done. In the State of Minnesota we don't have a lot of clothing factories, so that was another one of my problems and it still is.

Chairman LELAND. Do you have the dream that someday you will have a real clothing manufacturing company?

Ms. REEVES. I do.

Chairman LELAND. What I mean is, a big, huge operation where you've got, say, 100 employees working for you?

Ms. REEVES. No. I don't want that because I like to take the weekend off and play with my kids. I'm not interested in being a big money mogul. What I want to do is keep a nice business. I would like to go national and I am in the process of going national, but I don't want to grow to the point where I've got to have a big factory and 100 people. And I don't think you need to do that. I think I can keep it small and yet make a decent living.

Chairman LELAND. Wait a minute, though. If you expand to a national level, then that means you're going to several different cities other than the one that you're operating in——

Ms. REEVES. Right.

Chairman LELAND [continuing]. Which means that you're at least going to have to have your counterparts working in those different cities for you.

Ms. REEVES. Well, the person that does my manufacturing, she works with about 25 people. So at any one time she could be putting out 3,000 to 4,000 pieces a week, so at this point in time that's not a problem for me. Sales reps are a problem; finding good people that you can trust and people that can take my particular merchandise and go into the correct store and sell it, that's another big issue, because I can't travel all over the country and try to sell.

Chairman LELAND. That's rather admirable of you. I wish you all success.

Ms. REEVES. Thanks.

Chairman LELAND. Mr. Rossier, based on the experiences of your program what are the community benefits of self-employment programs for low-income persons?

Mr. ROSSIER. Well, the benefits come on several different levels, as it turns out. First of all there are the economic benefits of a more viable regional economy where more people are doing business with each other. Beyond that, though, there are social kinds of benefits. For instance, the first SHARE loan went to a woman who is raising goats and chives and wanted to put them together and make cheese. In order to sell the cheese to stores and restaurants, she got a SHARE loan to buy the expensive equipment necessary to meet the State regulations.

A newsletter goes out to all these SHARE members about what kind of loans are being made and how the businesses are doing, so there are people in town that are behind her; not just financially, but emotionally. It's a place where people can take their kids to look at the goats and see how a farm operates.

Another SHARE loan went to a fellow who does custom logging on a small scale with horses. When he enters his horses in a competition at a fair, for instance, people show up. It's the knowledge that there are real people supporting you as well as their money that adds a social layer and gets connections going on that level as well as the merely financial.

Chairman LELAND. Very good.

I understand that all of your loans are current. Is that correct?

Mr. ROSSIER. Yes.

Chairman LELAND. Have you had times where they have not been, where you've had real problems?

Mr. ROSSIER. None. None.

Chairman LELAND. That's outstanding.

Ms. McDaniel, I understand that your program started out providing grants to low-income persons to start home-run business ventures. What prompted the creation of this program? What was the impetus that made you get involved in this?

Ms. McDANIEL. In our first program efforts?

Chairman LELAND. Yes.

Ms. McDANIEL. As I said, our State funding officials encouraged us to develop programs that would have a significant economic impact on people in poverty. Since there were not many jobs in our area at that time, self-employment just seemed like the natural way to go.

Chairman LELAND. What encouraged your organization to expand activities to include securing loans for low income persons? The same thing?

Ms. McDaniel. Basically the same thing. We just wanted to try what we had been doing on a little larger scale, and that seemed like a neat way to go about it.

Chairman Leland. I must say that you all serve as great examples for us in the Congress. Your record here is going to be invaluable to future considerations of what we do, more so in some instances than the people who testified before you because you are the examples of what it is that we'd like to see expanded on in these kinds of economic opportunities for the little people. You have created some real new opportunities, and maybe—just maybe—this hearing can provide some impetus for us to look further and broader in this matter of micro-enterprise. It's a contemporary idea; at least, in modern times it is. Like Ms. Reeves, more often than we should we have considered that small business people have wanted to launch themselves into this incredible multinational, national, and even multicity or even bigger operations than they possibly should have.

Somebody testified earlier that we should begin step by step as opposed to trying to do too many things at one time. But I'm impressed. Ms. Reeves, your testimony is particularly compelling because you are the example of the operation of some opportunities here.

I'm glad that you could come and provide us with that kind of testimony, all of you. I will tell you that I've gotten some ideas myself about how we're going to use that $15 million in community development money——

Ms. Mannillo. If you'd like to invite us down, we'll help you take care of it.

Chairman Leland. Well, that is a part of my idea, as a matter of fact, and I just might call on you to do that, all of you, because you've got some real good ideas about small loans to people.

Also, there are Federal provisions embodied in the Community Reinvestment Act which require banks to invest a certain amount of their holdings in the communities in which they are located. There might be some opportunity for us to take this principle and expand on it, to adapt it to the opportunities here, to use some of those economic development funds. You were suggesting, Ms. Mannillo, that you have not taken advantage of or found any Federal or public dollars that could be used for the purposes of what you want to do. I would suggest that you might want to look at community development funds. You might specifically want to talk to your Congressman or your city council or your mayor to determine if in fact you can get involved in that area. In addition to the hotel project there was an $800,000 grant under consideration to be used for the building of a $4 million dog pound in Houston. That was stopped by one of our city councilmen, and as a result, $400,000 went to the Police Department for its fight against drug abuse and drug trafficking in our community, and $400,000 more was to be used specifically for housing the homeless people of the city of Houston. We have about 37,000 homeless people in Houston.

Those funds are rather flexible; there is a great latitude that can be exercised by the city council, the administrators of those funds. So you might want to look into that area.

Again, I want to commend all of you for coming. Thank you so much for your valuable testimony. I guarantee you that we will be calling on you again to help to nurture the ideal of what you represent in reality.

Thank you very much. The committee now stands adjourned.

[Whereupon, at 12:27 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]

### Prepared Statement of Hon. Micky Leland, a Representative in Congress From the State of Texas

GOOD MORNING. I WOULD LIKE TO WELCOME YOU TO THE SELECT COMMITTEE ON HUNGER'S EXAMINATION OF MICRO-ENTERPRISE CREDIT VENTURES IN THE UNITED STATES AND THE POTENTIAL THESE INTIATIVES HAVE FOR ASSISTING LOW-INCOME AMERICANS ACHIEVE SELF-SUFFICIENCY.

OUR WORK WITH THE MICRO-ENTERPRISE CREDIT CONCEPT HAS FOCUSED LARGELY ON ACTIVITIES ABROAD. COMMITTEE RESEARCH OF PROGRAMS SUCH AS THE GRAMEEN BANK PROJECT IN BANGLADESH AND THE RURAL DEVELOPMENT FUND IN PERU HAS CLEARLY DEMONSTRATED THAT HELPING THE POOR ACCESS CAPITAL TO START SMALL-SCALE BUSINESSES CAN BE A SUCCESSFUL MEANS FOR INCREASING FAMILY INCOME AND IMPROVING THE FAMILY LIVING STANDARD. I WOULD BE REMISS IF I DID NOT NOTE THAT GARNERING ADDITIONAL CAPITAL FOR MICRO-ENTERPRISE LENDING HAS ALSO OCCURRED IN MORE DEVELOPED NATIONS. IN EUROPE, BOTH FRANCE AND GREAT BRITIAN HAVE BEGUN EXPERIMENTING WITH THE USE OF TRANSFER PAYMENTS TO PROVIDE CAPITAL TO PROMOTE SELF-EMPLOYMENT INITIATIVES. IN THESE COUNTRIES, UNEMPLOYMENT COMPENSATION RECIPIENTS ARE

ABLE TO COLLECT THEIR BENEFITS IN A LUMP SUM FOR SMALL BUSINESS START-UP EXPENSES.

RECENTLY, CONGRESS APPROVED A BUDGET RECONCILIATION BILL THAT PERMITS THE CREATION OF A PILOT PROJECT TO OPERATE A SIMILAR PROGRAM HERE. I AM PLEASED THAT CONGRESSMAN RON WYDEN, WHO SPEARHEADED THIS EFFORT IN THE HOUSE, WILL BE JOINING US TO DISCUSS THE NEW DEMONSTRATION PROGRAM.

OVER THE PAST FEW YEARS, THE COMMITTEE HAS BEEN INVESTIGATING INNOVATIVE PROGRAMS DESIGNED TO HELP LOW-INCOME PERSONS ATTAIN FINANCIAL INDEPENDENCE FROM PUBLIC AID PROGRAMS -- PROGRAMS THAT WOULD HELP THEM ACQUIRE MARKETABLE SKILLS AND SECURE JOBS PROVIDING DECENT WAGES. LOOKING AT THE ACHIEVEMENTS OF THE MICRO-ENTERPRISE CREDIT PROGRAMS ABROAD, THE COMMITTEE HAS EXPANDED ITS SCOPE OF INQUIRY TO ASCERTAIN THE FEASIBILITY OF REPLICATING SUCH PROGRAMS IN THE UNITED STATES. OBVIOUSLY, POVERTY IN THE UNITED STATES DIFFERS FROM THAT FOUND IN DEVELOPING NATIONS. HOWEVER, POOR PEOPLE THE WORLD OVER, FROM WASHINGTON, D.C.

TO DAR ES SALAAM, SHARE A COMMON PLIGHT -- THEY LACK RESOURCES WHICH PRECLUDES THEIR ACCESS TO A DECENT QUALITY OF LIFE.

BASED ON ITS RESEARCH OF MICRO-ENTERPRISE ACTIVITIES IN THIS COUNTRY, THE SELECT COMMITTEE RELEASED A REPORT IN JANUARY WHICH REVEALS THAT THESE PROGRAMS CAN, AND DO, WORK HERE AT HOME. IN FACT, THERE IS A BROAD ARRAY OF PROJECTS OPERATING AT THIS VERY MOMENT WHICH HELP LOW-INCOME PERSONS ACQUIRE CAPITAL AND TECHNICAL ASSISTANCE TO LAUNCH SMALL BUSINESS VENTURES. INNOVATIVE FINANCING TECHNIQUES, RANGING FROM THE CREATION OF COMMUNITY DEVELOPMENT CREDIT UNIONS TO THE USE OF COMMUNITY SERVICE BLOCK GRANT FUNDS TO LEVERAGE LOANS FROM CONVENTIONAL LENDING SOURCES, ARE PAVING THE WAY FOR IMPOVERISHED AMERICANS TO ACHIEVE FINANCIAL INDEPENDENCE.

TODAY WE WILL EXPLORE THE SOCIO-ECONOMIC BENEFITS OF THESE MICRO-ENTERPRISE CREDIT PROGRAMS, DISCUSS THEIR VIABILITY AS A TOOL FOR HELPING THE POOR ESTABLISH AND

MAINTAIN ECONOMIC SECURITY, AND, EXAMINE ADDITIONAL STEPS WE CAN TAKE TO EXPAND OPPORTUNITIES FOR SELF-EMPLOYMENT. THIS IS AN EXCITING ISSUE AND I LOOK FORWARD TO A VERY INFORMATIVE HEARING.

## PREPARED STATEMENT OF HON. BILL EMERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

INVESTIGATING SUCCESS STORIES OF INDIVIDUALS WHO HAVE PULLED THEMSELVES FROM THE GRIP OF POVERTY. SO OFTEN WE TEND TO FOCUS ON THE NEGATIVE ASPECTS OF WELFARE REFORM RATHER THAN THE POSITIVE ASPECTS.

MANY IN THIS COUNTRY BELIEVE THE ELIMINATION OF POVERTY IS IN THE HANDS OF THE FEDERAL GOVERNMNET. IT IS IMPORTANT THAT WE RECOGNIZE THAT GOVERNMENT PROGRAMS ALONE ARE NOT THE SOLUTION. STABLE FAMILIES AND STRONG COMMUNITIES ARE THE BUILDING BLOCKS OF AMERICAN SOCIETY. BUT THE TRANSITION FROM WELFARE TO WORK IS NOT AN EASY ONE. FORTUNATELY, GROUPS SUCH AS WEDCO ARE SPREADING THE WORD OF THEIR SUCCESS AND ENCOURAGING OTHER COMMUNITIES THROUGHOUT THE COUNTRY TO JOIN THEM IN PROMOTING SELF-HELP PROGRAMS.

THE INCREASED INVOVLEMENT OF PRIVATE SECTOR ORGANIZATIONS IS VITAL TO THIS COUNTRY'S SUCCESS IN FIGHTING POVERTY. VOLUNTEERISM HAS LONG BEEN AND REMAINS A VITAL FORCE IN ALL COMMUNITIES. WEDCO IS JUST ONE EXAMPLE OF THE TREMENDOUS WORK THAT CAN BE ACCOMPLISHED THROUGH PRIVATE SECTOR INITIATIVES. I COMMEND THEM FOR THEIR OUTSTANDING PROGRAM AND MARVELOUS SUCCESS.

I WOULD LIKE TO THANK ALL OF OUR WITNESSES FOR APPEARING TODAY, AND WOULD REQUEST THAT THE RECORD REMAIN OPEN IN ORDER TO SUBMIT QUESTIONS TO THEM FOR WRITTEN RESPONSE.

THANK YOU.

## PREPARED STATEMENT OF SENATOR THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

I would like to thank Chairman Leland for inviting me to testify at this hearing. It is a pleasure to lend my voice in support of efforts to promote self-sufficiency among the nation's poor.

The micro-enterprise program in which I have been involved is the Self-Employment Opportunity Act of 1987. At the request of my good friend and colleague, Representative Ron Wyden, I led the effort to have the provisions of the Act included in the Senate version of the Budget Reconciliation Act of 1987.

When Congressman Wyden first described his proposal to me, I was frankly impressed by the creativity and common sense of it. It is creative in that it represents a commendable effort to move beyond the traditional notions of how to help the poor. It is common sense in that it recognizes human potential and uses it to spur economic development that will prevent poverty in the future.

The Self-Employment Opportunity Act is also efficient. It is a rare occurrence, indeed, when a program can provide long-term beneficial results without the need to raise additional funds. Proposals of this type are certainly timely in light of the federal budget deficit and the pressure to cut, rather than increase federal spending.

Since passage of the Act, I have had numerous inquiries about it. The most intriguing calls have come from groups, mostly non-profit, that specialize in helping individuals tap skills they already have and learn other skills necessary to starting a business. These groups want to learn as much about the program as possible to see what assistance they might provide. The interest of these groups has shown me the importance of the program in simply providing a focal point where those in need of assistance and those equipped to provide it can meet.

Another appealing facet of this program is that it takes advantage of already-existing state agencies and abilities. It allows states to set up individualized programs within their own government structure to suit the economic picture in the particular state involved.

The Self-Employment Opportunity Act is admittedly a modest proposal. It will not have extremely broad application among the unemployed. The National Federation of Independent Business estimates that 18 percent of new enterprises start out with less than $5,000 of capital. For those unemployed with the necessary qualities and skills, though, the Self-Employment Opportunity Act is a foot in the door to economic independence.

I hope that, as we implement the provisions of the Self-Employment Opportunity Act, we will prove its potential and find ways to enhance it. Hearings such as this one and those that will be held in the future will provide an important means of re-evaluating this and other micro-enterprise programs.

## PREPARED STATEMENT OF HON. JOSEPH E. BRENNAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

COASTAL ENTERPRISES, INC.

Coastal Enterprises, Inc. (CEI), located in Wiscasset, ME was founded in 1977 and became operational in 1979. Ronald L. Phillips is the President. CEI provides financing and technical assistance for the development of natural resource-based industries, innovative, job-generating manufacturers, and micro-businesses. CEI also aims to create employment and income opportunities, including self-employment, for low-income individuals and limited resource enterprises.

In the natural resource sector, CEI has focused on value-added and marketing enterprises, with a special concentration on the fishing industry. This industry is a way of life for some 15,000 primary producers, processors, and others, accounting for about five percent of the state's gross product. To date, CEI has provided development capital to eight strategic ventures along the Maine coast, involving fuel, ice, berthing, processing, freezing, marketing, communications, and related trades. In the Small Business Finance and Employment Training Project, a national demonstration launched in 1985, CEI's loans are tied to borrower agreements to employ and train dependent populations, including AFDC recipients and the handicapped. Over 500 low-income jobs have been targeted in the 30 businesses financed under the project. In other initiatives, CEI is providing financial and technical assistance in the development of family and center-based child care. CEI also implements an entrepreneurship training program for women through the Vocational Technical Institutes. Annually, CEI directly serves approximately 1,000 people in its finance and technical assistance projects.

CEI's assets are $5.6 million with $2.7 million in borrowed capital, and a $2.9 million fund balance. Since inception of its development finance projects, CEI has made 90 loans or equity investments to primarily rural enterprises, and has leveraged nearly $40 million. As many as 1,475 jobs have been directly created or sustained. At present, average yearly financing is about $750,000 in 18 projects. This number is expected to increase sharply as its micro-lending program goes forward.

## ABSTRACT

In 1984, Coastal Enterprises, Inc. (CEI) launched its $3.5 million Small Business Finance and Employment Training demonstration project. Supported by the public and private sectors, the project was designed to develop targeted employment and training opportunities for a variety of disadvantaged populations by making loans and investments in primarily expanding and job-generating Maine enterprises. CEI sought to demonstrate to state and regional finance and employment training or human services agencies, such as the Finance Authority of Maine (FAME), and Departments of Human Services, Labor and Education the value of developing formal ties to better fulfill their respective objectives.

CEI, a private non-profit 501(c)3 community development corporation located in Wiscasset, Maine, was organized in 1977 to provide financial and technical assistance to Maine natural resource-based industries, and innovative job-creating small businesses engaged in value-added manufacturing.

CEI received major support for the Small Business Finance & Employment Training (SBF&ET) project from the Ford Foundation's Program-Related Investment and Urban Poverty Programs; UNUM Charitable Trust in Portland; national protestant churches, the federal Office of Community Services and Human Development Services of the Department of Health and Human Services; and state agencies, such as the Department of Human Services, Department of Labor and Private Industry Councils.

After three years of operations, CEI has loans and investments in 28 ventures and has leveraged more than $26 million of equity, bank and other financing. As a result, 577 "targeted" jobs have been, or are projected, to be created over a five-year period in starting or expanding Maine enterprises for Aid to Families of Dependent Children, handicapped and other economically disadvantaged or dependent populations.

## I. INTRODUCTION

The project emerged at a time of change in Maine's economic history. Over the past few years, Maine has lost nearly 10,000 manufacturing jobs in its traditional industries (e.g. shoes, textiles), but at the same time, it has experienced new growth in service sector jobs. The overall unemployment rate has been the lowest in Maine's history! Under the present state administration, this apparent "boom" in Maine's economy (particularly southern Maine) has created the basis for a much greater emphasis on employment training and education resources. The governor's new Human Resources Development Council, consisting of agency heads of the Vocational Technical Institutes and private sector representatives.

As the State Planning Office's 1985 and 1986 reports on Poverty in Maine and The Maine Economy: A Forecast to the Year 1995 point out, however, the welfare of Maine residents, more of whom are poorer today than in 1980, is not likely to improve dramatically. Maine, a predominantly rural state with a population of 1,200,000, has been chronically poor, ranking fifth nationally in dependence on transfer payments. In 1985, 40 percent of its households were within the lower living standard.

In 1979, the Northeast-Midwest Institute issued a report entitled "The Neglected Resource: The Use of Employment and Training Programs in Economic Development Strategies". Concerned about the "gap" between developers and employment training officials, the authors suggested that at least one part of the solution lies in formulating a policy base for coordination.

In recent years, numerous states (sixteen, as reported in 1986 joint publication of the National Alliance of Business and National Association of State Development Agencies, Making the Link: Coordinating Economic Development and Employment and Training) have taken steps to coordinate the respective resources of their economic development and employment training systems. Most notably, linkage has occurred in industrialized states, and those with maturing industries where major lay-offs have required economic adjustment strategies focusing on "human capital" development, including retraining programs. The Manpower Demonstration Research Corporation in New York has evaluated many of the initiatives specifically involving state welfare-to-work programs.

The concept of linking the objectives of economic development and employment training thus opens a wide range of options, which seem to point tc the necessity of clear administrative policy, if not direct legislative mandate. Customized industrial training programs through the Vocational Technical Institutes; state oversight of the JTPA delivery system; state operation of the Work Incentive Program (WIN), are but a few of the programs and basis for coordination and linkage with economic developers, and ultimately improved entry into the private sector's world of jobs and potential placements for disadvantaged clients. On the economic development side, an array of finance and development programs are typical from state to state. These include a finance authority, a state development office, a small business loan program, technology or product development strategies, and the Community Development Block Grant programs. These too can benefit from the packaging of employment training and support resources to the business venture.

## II. SMALL BUSINESS FINANCE & EMPLOYMENT TRAINING

### A. BACKGROUND

The project grew out of CEI's longstanding commitment to effectively target job opportunities to low income people, while at the same time providing a source of venture-type capital to value-added and job-creating Maine ventures. It was inspired by Peter Bearse's comments on the two systems of economic development and employment training when he said to the National Commission for Employment Policy in his 1982 Linking Manpower and Economic Development: "Independently, neither can reach their development potential."

The project built on state initiatives in Maine such as those of the 1981 Work Opportunities Committee of the Department of Human Services and its findings recorded in Women, Work and Welfare that included a focus on the need for jobs for AFDC recipients. As well, the project was guided by the strategic planning and client needs of the Private Industry Councils, State Departments of Human Services and Labor, and other agencies which have continually sought to tie their resources to forecasts and developments in the economy as a whole, in order to ensure opportunities for their respective clients.

CEI's overall approach involved three basic criteria and activities:

1. Loans or investments in a venture were conditioned on the requirement that the business enterprise set aside a portion of jobs created (at least one-third) for low income people;

2. In conjunction with the management/owners, design and execution of a "tailored" Employment Training Plan and related Employment Training Agreement spelling out the referral, programmatic and financial responsibilities of various deliverers; in effect, part of the deal is the employment piece;

3. Provision for follow-up monitoring, facilitating and troubleshooting in order to foster the "linkage" between the business and the employment training systems over the term of the loan or investment.

CEI entered into 28 loans or investments and related Employment Training Agreements with starting or expanding Maine enterprises. The primary accomplishments to date include:

- $3.5 million of financing for 28 ventures together with 28 Employment Training Agreements; leverage of over $26 million (includes $15 million in one real estate development project);
- Creation of 1540 new jobs over a five-year period, with more than 300 net new jobs to date;
- Targeted job creation potential of 577, including over 155 for AFDC and 30 for handicapped;
- Over $200,000 of training support for 138 employees.

The SBF&ET project essentially took on the task of "packaging" loans and investments to promising Maine enterprises, tied to borrower commitments under the Employment Training Plan and Agreement to employ a minimum of one-third AFDC, youth, veterans, handicapped persons and other economically disadvantaged populations.

CEI brought to the table not only financing, but the spectrum of resources and services available to business from various state and/or federally-funded agencies. These included the On-the-Job Training funds of the Private Industry Councils, Job Services' free recruitment; aptitude testing; Veteran's Job Training Program; and Targeted Jobs Tax Credit Certification; the Department of Labor's pre-OSHA health and safety survey and industry research database; as well as Department of Human Services' Vocational Rehabilitation Programs job task analyses, worksite recommendations and OJT funds for handicapped clients; grant diversion for funding OJT of AFDC recipients and other support from the Welfare, Employment, Education and Training Program of the Department of Human Services.

At inception and throughout the project, CEI marketed its financing through various channels. It maintained an active network in the state for referrals of business for potential financing from other economic development organizations and lending institutions. It also utilized the media, e.g. newsletter, newspapers, magazine articles to generate prospects.

CEI additionally conducted a series of workshops throughout the state. At these sessions, not only was the process of CEI's investment with targeted job creation explained, but also participants were encouraged to refer deals themselves.

The concept of employment or human services personnel actually "prospecting" on behalf of an economic developer was, and continues to be, an untrapped resource of information and opportunity in business growth potential. Appendix I identifies the various economic development and employment-training organizations with whom CEI had contact, or participated in workshops and/or agreements for the project. These groups are also the primary groups with whom linkages would be developed in a formal policy.

## B. TARGETED POPULATIONS

A major emphasis of the project was on AFDC recipients. This turned out to be an exceptionally difficult group to place in jobs in the private sector. One hundred forty-eight jobs were targeted for AFDC recipients in several CEI ventures, out of a possible 577 net new jobs. As many as 30 percent of the females hired in a given business had received AFDC within the previous two years. Thus, the project affected about 70 current or previously enrolled AFDC recipients.

Nevertheless, in those cases where there was a successful placement, it was clear that progressive wages and benefits well above minimum wage made the transfer from "welfare to work" possible. Few groups in our society, in fact, suffer more from public misconceptions than do AFDC families and this is no exception in Maine. The stereotype of the single mother "choosing" to stay on welfare as a way of life, and continuing to have children to do so, is not supported by the facts.

In Maine there are about 20,000 AFDC single heads-of-households, 98 percent of whom are women. About 70 percent of these households consist of two children between the ages of 5-12. In fact, over 75 percent of AFDC recipients would need day-care if working. Nearly half the recipients are in their twenties. Lack of day-care and/or transportation are barriers that confront those willing and able to work. One report in Maine suggested about 25 percent, or over 4,000 AFDC recipients sought gainful employment. Without doubt, however, the inability to find a good-paying job with health benefits appears to be the single most critical barrier to employment for AFDC recipients. Because the complexities of the welfare program and regulation, employment is not always a better economic alternative. Any welfare to work strategy must therefore consider and examine income and employment issues. Progressive wages, provision of health benefits and affordable day care are crucial to the success of such a strategy.

CEI also launched an initiative, working with the Bureaus of Rehabilitation and Mental Retardation, to target jobs for handicapped persons. Twenty clients were placed in as many jobs targeted. CEI also linked businesses with community sheltered workshops.

More than 30,000 Maine people are currently receiving some sort of disability income and assistance. Three thousand people apply for services of the Vocational Rehabilitation Program each year due to accident, sickness, injury, disability. Employment for VR clients means working for wages, self-emplyoment or supported employment. In a twelve-month period, approximately 7000 VR clients are served with 100 cases closed in the same period. Six hundred of the clients enter an employment situation. However, 75 percent of the 7000 VR clients per year seek meaningful employment opportunities.

The small business and entrepreneurial dynamics in Maine that result in job creation offer a potential alternative to Maine's historic dependency and low per capita incomes. When linked to the education and training of its residents generally, and targeted populations specifically, the prospect for progressive incomes that can better support a family or individual seems attainable. Maine's is a small business economy, with 95 percent of all businesses employing less than 100; 75 percent less than 10. A business finance mechanism and strategy, tied then to the agencies devoted to human services, training and education needs, could help turn a corner for the livelihood for all Maine's people, including the economically disadvantaged.

## C. HOW THE PROJECT WORKS

Project funds provided support for two essential staff positions, the Employment Developer and Senior Loan and Investment Officer. An evaluation was also conducted by the Human Services Development Institute of the University of Southern Maine. Results of the evaluation are described in a subsequent section. The funds also generated earnings for ongoing project support and reinvestment capital.

Since the Spring of 1984, CEI has entered into 28 loans or investments and related Employment Training Agreements, with starting or expanding Maine enterprises. Appendix II lists the general product/service of each company, the financing, training opportunities, wages and benefits, number of jobs and targeted jobs created. A summary follows:

- 25% wood products
- 20% textile products
- 20% food or health care products
- 15% service industry
- 20% other
- 72% provide a group health/medical package
- All provide On-Job Training opportunities and an average entry level wage of $4.70/hr. with wage increases as skill level improves

### 1. The Venture Review Process

The venture review process consists of five basic components: Screening, Staff Analysis, Approval, Closing and Loan Servicing. Application for a CEI loan or investment involves a process of staff analysis and interaction with the business, with final decision resting with the Investment Committee and the Board of Directors. Appendix III outlines the basic steps in the process.

### Screening and Analysis

The Senior Investment Officer is responsible for initial screening for CEI criteria, review of business plan, negotiations and agreement on terms and conditions of loan and investment, analysis of financial statements and plan, market, management and risk, as well as structuring the final terms of financing, and perhaps negotiating with other sources. When initial screening is positive, the Employment Developer prepares an Employment Training Plan and Agreement (fully described below). The process includes one or more visits to the site, and a number of conversations with management, employee supervisors and other key company personnel to develop data on the employment picture of the company, as well as business plan documentation.

Approval and Closing

Once this process is complete, staff prepares an Investment Memorandum for consideration by the board's Investment Committee. The five-member committee recommends action to CEI's full 15-member board. Favorable action results in the documentation procedure for closing the loan or investment, at which time the Employment Training Agreement is incorporated into the final documents.

Servicing and Monitoring

Activity beyond closing is crucial. This involves not only monitoring the business' financial performance but also facilitating the implementation of the Employment Training Agreement.

The entire venture review process takes 60 to 90 days and has been guided by two key criteria: the deal would not be done unless it was economically viable, and further, the deal would not be done unless it offered targeted job opportunities. Significantly, the Employment Developer is as much a part of the deal-making process as the Investment Officer, an indication that the goal of each is dependent on the other.

## 2. Forging a Commitment: The Employment Training Plan and Agreement

### Employment Training Plan

The SBF&ET project demonstrates a working model that formally links economic development with employment training. The Employment Training Plan, the unique feature of CEI's financing, functions very much like a business plan, wherein at least seven components of a business' employment profile are described as follows:

- Targeted jobs to be created, job descriptions and career paths;
- Entry level wages, wage progression and opportunities for advancement;
- Appropriate training, training resources and training agencies responsible;
- Availability of client pool; type of client (e.g. AFDC, SSI, handicapped), and management commitment/disposition toward hiring of disadvantaged;
- Potential training reimbursement to the business, e.g. OJT, AFDC Grant Diversion;
- Workplace health and safety factors;
- Medical and fringe benefits coverage (percent and type of employee and dependent coverage; dental plan; pension; other benefits).

The Employment Training Plan is the basis for negotiating the details of the training program between the business and the employment training deliverers. The outcome of these negotiations is transferred to an Employment Agreement which details the responsibilities of all parties in relation to the employment training and, as stated earlier, is incorporated into the closing documents that accompany the CEI financing.

Coastal
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## CHILD CARE DEVELOPMENT PROJECT

## SUMMARY

Coastal Enterprises, Inc. (CEI) is seeking funding of $740,000 from various private and public sources for its Child Care Development Project, which aims to foster quality and affordable child care in the State of Maine. The proposal is currently pending with several other private foundations and State of Maine government agencies. Already, $210,000 toward the funding goal is in hand from the federal HHS Office of Community Services, Charles Stewart Mott Foundation, and other sources. With these funds, we have begun operations on a small scale.

The project aims to provide financing and technical assistance to develop family or center-based child care, as well as encourage self-sufficiency, particularly for AFDC recipients. The budget will support a $500,000 Revolving Loan Fund, and a two-year $240,000 management budget for screening, lending and monitoring of loans; business counseling; technical assistance in quality delivery and low-income benefits. An evaluation will be conducted by the University of Southern Maine's Child and Family Institute.

The Ford Foundation is interested in providing $230,000 toward the project, subject to the involvement of the state and other parties. This foundation is developing a national demonstration which could include CEI and its partnership with the state to promote the supply of child care, and benefits to low-income people, as one of the model projects.

Following is a summary of the proposal. A full proposal is available, which includes documentation and information presented. We hope to raise the necessary funds to go forward in full with the project this spring; with the funds in hand, we have started up on a small scale with loans and counseling assistance to child care providers.

### Organization Profile

Coastal Enterprises, Inc. is a private non-profit 501(c)3 community development corporation which provides financial and technical assistance to small businesses, cooperatives and natural resource industries in rural Maine. Since its inception in 1977, CEI has sought to address the lack of development capital and management skills of limited resource entrepreneurs, as well as the problems of Maine's economically disadvantaged persons who lack the skills or support base to enter the job market. CEI has enabled over 3,000 Maine people to move toward economic self-sufficiency by providing or guaranteeing loans and offering technical assistance to over 500 small enterprises.

Specifically, CEI has played a major role in the revitalization of the Maine fishing industry with development capital involved in seven strategic fish processing and marketing facilities along the Maine coast. In these and other loans or investments in innovative, value-added manufacturers, CEI targets employment and training opportunities for dependent populations, including AFDC recipients and handicapped persons. CEI provides technical assistance in a variety of areas. These include design of an entrepreneurship curriculum for the Maine Vocational Technical Institutes, management and development of fish piers for municipalities, and counseling small entrepreneurs.

CEI has raised $8 million and participated in nearly $40 million of financing and program activity. Funding sources have included the Ford Foundation, the Rockefeller Foundation, the UNUM Charitable Trust, Charles Stewart Mott Foundation, the Betterment Fund, the United Presbyterian Foundation, the US Catholic Conference Campaign for Human Development, national Protestant denominations, federal Community Services Administration, Department of Health and Human Services, Farmers Home Administration, and state agencies.

CEI is also one of six Maine local development corporations certified by the Small Business Administration under the 504 Loan Program and one of eight subcenters providing management assistance through the Small Business Development Center program of the SBA and the University of Southern Maine. CEI is also certified to package projects for the Finance Authority of Maine.

CEI has a professional core staff of seven and a 15-member Board of Directors representative of community, small business, and financial sectors. Its financial management capacity, combined with an orientation to training opportunities for the disadvantaged, places CEI in a unique position to implement this project and to direct available resources to the pressing issues of rural poverty.

## Statement of Need

The case of Jessie Ryan illustrates one type of child care provider CEI's project is designed to assist. Jessie Ryan, a young single parent and AFDC recipient with two pre-school children, lives in a rural Maine village. A small snowshoe manufacturing plant recently opened in a neighboring town and is a source of employment for women and men in the village. Several, however, like Jessie, have young children, and there are no day-care facilities in the village. Although some parents can turn to other family members for child care, at least eight cannot. Jessie would like to make her trailer home a day-care facility. Although she has not graduated from high school, she is bright and industrious.

Currently, there are three obstacles to her becoming a family day care provider. First, she needs capital to replace a faulty heater in the trailer and to buy equipment. Second, she needs support and training in providing quality child care. Thirdly, she needs basic business and management information, skills and support.

If, however, she could open a family day care facility, she would not only enable herself, but also others, to move toward economic self-sufficiency. In addition, her own self-esteem and sense of competence would be enhanced, thereby helping to break the circle of economic dependence and low self-esteem.

Whether a family or center-based operation, CEI's Child Care Development Project aims to promote the supply of child care, its viability as a small business, and accessibility for low-income people.

The growing need for child care is irrefutable. The number of working women has tripled since World War II. In Maine, women comprise 44 percent of the workforce, and the Department of Labor estimates that more than 53 percent of Maine women are working or seeking work outside the home.

The relationship between the availability, quality and affordability of child care and the quality and productivity of Maine's workforce is clear. Nearly 20 percent of working parents report that they would work more hours if adequate and affordable child care were available. Further, in nearly 25 percent of all households with young children, one or more of the adults was forced to quit work, unable to take a job or unable to continue training or education because of lack of child care. For poor families seeking to break the cycle of poverty, the availability of child care is even more critical, especially when considering the disproportionate number of single parent families among the poor.

Despite the growing need for child care, providers of center and family-based child care services face many financial and busineses management barriers that inhibit new entrants, or discourage the maintenance or growth of existing providers. Finance institutions consider them very risky, are concerned about liability, and are reluctant to lend money. Support systems for child care providers focus more on child development training; they do not have the capacity to provide business and technical information.

The response to a survey of child care providers conducted by CEI and the Department of Human Services Office of Child Care Coordination in early 1987 corroborates the need for tailored financial and technical assistance. Of the 1800 surveys distributed to licensed child care providers in Maine, over 20 percent responded. Sixty percent reported they could use a loan fund for expansion of space, acquisition of equipment and safety improvements. Amounts of capital needed ranged from as little as $500 for a family-based provider, to as much as $300,000 for larger centers.

As well, a majority of respondents desired management assistance tailored to their businesses in areas such as taxes, recordkeeping, cash flow, marketing and financing. One-on-one counseling was the preferred method of delivering services, with written materials second, and workshops third.

## Goals, Objectives and Activities

The goal of the project is to stimulate the development of affordable, quality child care for Maine families, and particularly low-income families, and to assist individuals seeking economic self-sufficiency through the operation of child care facilities.

The Child Care Development Project has been formulated as a means of demonstrating strategies for addressing the inability of the current industry to meet the growing demand for child care. The project is designed as a public-private partnership aimed at fostering the supply of child care, its quality and, through agreements with the Department of Human Services and employment training programs of the Department of Labor, benefits to AFDC and other low-income people.

Through operation of a $500,000 Revolving Loan Fund, business management assistance, quality care evaluation and planning, and low-income targeting, the project will demonstrate that:

- tailored financing will stimulate the development of child care facilities;
- linking business management and child development training to a loan will improve the efficiency and quality of the service;
- coordination between human services and economic development will optimize benefits to low-income people, including the posssiblity of a measure of economic self-sufficiency through self-employment as a provider of child care services.

The six objectives and related activities of the project are set forth as follows:

1. To mobilize $240,000 for two years from federal, state and private sources to provide program development, technical assistance, loan processing and project management, including the following:

    a. To provide approximately 1.5 days of one-on-one counseling on business issues to 25 child care enterprises for a total of roughly 40 days of assistance per project year.

    b. In conjunction with the University of Southern Maine and other child care specialists, to develop and publish a "how-to" manual which will provide business management information tailored to child care enterprises, including sample budgets and cash flows reflecting different types of operations.

    c. To deliver four workshops on business issues such as marketing, financing, and taxes for child care providers serving a total of 20 participants.

2. To provide $500,000 in Revolving Loan Funds to 30 start-up or expanding child care centers and homes for a projected 250 slots linked to a Quality Care Evaluation and Plan, and participating in early childhood development training in order to ensure the development of quality care.

3. To ensure low-income benefit by coordinating CEI activities with employment and training and human services, including the following:

    a. To target 80 of the 250 projected slots to low-income families and to mobilize subsidies to support the cost of child care.

b. To assist ten AFDC recipients interested in starting up a child care operation by coordinating the provision of financing, technical assistance and training.

c. To target at least one-third of jobs created through CEI financing to low-income individuals, and to coordinate with the Department of Labor, Private Industry Council and other agencies to ensure the provision of training and related support for a position.

4. To advocate for increased public/private resources in support of child care develompent by the following:

a. To provide CEI-financed businesses with information and technical assistance with respect to employer-supported child care.

b. To provide training on child care enterprises to 75 representatives of the economic development and finance sectors, including representatives from the Finance Authority of Maine, Small Business Development Center network (there are eight centers that reach about 3,000 small business operators annually), and bankers.

c. To participate in community education in coordination with proposed Regional Resource Development Centers, and federal/state legislative initiatives to expand resources for child care development in Maine.

5. To coordinate the provision of CEI assistance with the delivery of other child care resources, such as training provided by the Child and Family Institute of the University of Southern Maine and other child care specialists.

6. To provide for a University of Southern Maine Child and Family Institute evaluation of the effectiveness of the project, furnish in-progress and final reports, and disseminate project finding and results.

## Target Groups

Family or center-based child care providers with limited resources to meet their objectives. AFDC and other low-income individuals or families who require child care, and/or may be interested in operating a child care service. Any individual eligible or participating in social service assistance, such as Job Training Partnerhip Act, Work, Education, Employment and Training (WEET, for AFDC recipients), and other income and training support programs.

## Activities to be Undertaken

The activities for the project were described with the objectives. The project is a two-year demonstration, with a potential to expand the loan fund and/or technical assistance beyond the second year, or to diminish activities beyond the second year to an essentially "loan monitoring" and minimal assistance program. Reduced activities beyond the second year will be supported by CEI and by income generated from the Revolving Loan Fund.

The project is therefore designed to be self-sufficient after two-year start-up support.

## Timetable

The project is scheduled to commence in full by March/April, 1988. Already, CEI has in-hand about $210,000 for loans ($170,000) and management support ($20,000 each for two years). These funds are being used to initiate the project on a small scale while full funding is being pursued. To date, CEI has screened eight potential loans, and has committed to two for a total of $51,500.

CEI expects to make approximately four loans/quarter, counsel six/quarter, and provide assistance to five AFDC recipients in self-employment opportunity each year.

Two workshops for providers will be offered each year; training of representatives from economic development and finance institutions, including banks, will take place in smaller and more frequent sessions. These are expected to commence in the last quarter of the first year, continuing on with periodic sessions (at least one/quarter) the second year.

CEI will provide quarterly financial and narrative reports to funding sources, including an annual audit, and in-progress and a final evaluation.

## Project Budget Detail

The project budget, along with a line-item explanation, is presented in the proposal. A summary follows:

### Project Budget Summary

| | |
|---|---|
| Salaries<br>Project Manager, Loan Assistant, Secretary/ Bookkeeper and other Staff Support | $ 61,750 |
| Fringe Benefits @ 20 % | 12,350 |
| Consultants<br>Business Counseling, Manual, Evaluation, Audit, Training, etc. | 27,740 |
| Support Costs | 18,160 |
| Total Budget (first year) | $ 120,000 |
| Total Budget (second year) | 120,000 |
| Revolving Loan Fund | 500,000 |
| Total Project Budget | $ 740,000 |

# PREPARED STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Good morning. I'm pleased to be here and want to commend members of the Select Committee on Hunger for the focus of this morning's hearing. As the Committee's recent staff report makes clear, improving access to credit among low and moderate income people is an effective tool to help combat problems such as hunger, poverty and unemployment. A similar concept -- that even a small amount of capital is often enough to allow motivated people to become self-sufficient -- is the basis of my Self-Employment Opportunity Act, a subject of today's hearing.

The Self-Employment Opportunity Act will allow a small number of unemployment insurance recipients to use their weekly benefits as seed capital to start small enterprises. Passed as part of the Budget Reconciliation Act of 1987, the law authorizes the Department of Labor to implement the three-year pilot project in three separate states. The DOL expects to select those states on a competitive basis by May of this year, and to have the project up and running by early 1989.

The approach outlined in the Self-Employment Opportunity Act is not a panacea; it will help only highly-motivated individuals. Consequently, the project will be open to no more than three percent of each state's workers who are eligible for regular unemployment compensation, and participants will be carefully screened. The self-employment allowances will run between $3,000 and $5,000 per individual. While the total benefit amounts are relatively small, they could be key to the start-up of smaller, cottage industry ventures. In addition, the funds could be used to leverage other investments, like SBA loans.

In our rapidly changing economy, structural unemployment is no longer limited to a so-called urban "underclass." In my home state of Oregon for example, production levels in the crucial forest products industry now rival -- and in some cases, exceed -- those of 1980, yet with one-third fewer workers. What can we in government do to assist those people? An attempt to find answers to that question was the genesis of the Self-Employment Opportunity Act.

First introduced in 1985, the Act is modeled after successful programs in France and England. These European models give carefully selected displaced workers an opportunity to start their own businesses using their earned unemployment insurance benefits as venture capital. More than 250,000 unemployed workers have started businesses as a result of the European programs since 1979. Each enterprise has created an average 1.5 jobs, and was financed by unemployment benefit funds that the new entrepreneurs would have received even if they had continued to search for work. The European failure rate after 18 months, by the way, was about 20 percent -- notably lower than average.
Rep. Ron Wyden

While there are difference between the United States and these European nations, these results are encouraging and sufficiently compelling to justify a similar, experimental program in this country. I am convinced there are thousands of people in the unemployment lines today with the necessary skills and ingenuity to become self-employed. The archtypical participant would be a former steel or lumber mill employee whose factory has closed. He or she sees a market for a product or service, but needs to raise a small amount of money to get the endeavor going. Consumer banks have been reluctant to take this kind of risk, and most recently unemployed people do not have ample cash reserves on hand. But as the Committee's own research has shown, sums as small as $2,500 or $3,500 can make a substantial difference to a small business start-up.

These may not sound like big deals in an economy where billion dollar mergers happen every day. But the small scale entrepreneur's contribution to economic growth is considerable. Officials in California say a full 70 percent of the state's new employment comes from the small business sector, while larger companies have declined in importance as sources of new jobs. What's more, blue collar entrepreneurs have been among the most entrepreneurial of the unemployed. Blue collar small business start-ups are given credit for helping to revive Rustbelt states like Ohio. Federal research shows that nearly 10 percent of the country's displaced blue-collar workers who have returned to work are now self-employed.

In closing, at a time when federal deficits will constrain government spending for the foreseeable future, it is imperative that we get the biggest benefit we can for the dollars we are already committed to spend. As those of us in Washington hear repeatedly from the states, flexibility is the key to success in worker retraining and job creation. The futurists tell us that jobs are going to become obsolete more quickly because of advances in technology. Workers can count on having to change jobs several times during their careers. By extending the options for self-employment and self-sufficiency to the disadvantaged, Congress can show its willingness to prepare our workforce for the challenges of the 21st Century. There is no more important task before us.

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## PREPARED STATEMENT OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION

- Small businesses in the United States account for 47 percent of private output and employ 56 percent of the private non-farm workforce.
- In 1982, approximately 8.2 million individuals were self-employed in non-farm industries.
- Somewhere between 1,050,000 and 1,250,000 new businesses are started each year.
- Most business startups require less than $5,000 of initial capital. Many of these startups, however, represent part-time businesses with receipts of less than $25,000 per year.
- Approximately two-thirds of startups require no outside capital. Where outside capital is required, it is often obtained by borrowing from banks or by obtaining funds from family or friends.

Mr. Chairman and Members of the Committee

## I. INTRODUCTION

I appreciate the opportunity to testify before the Select Committee on Hunger on the subject of Micro-enterprise Credit Programs. My experience as Chief Counsel for Advocacy brings constant reaffirmation of the importance of small business as a source of opportunity for the American people. I am pleased that this committee is examining this important aspect of American life.

My testimony will focus on the importance of small business in the American economy. In addition to focusing on the broad aspects of small business, I hope to provide a brief overview of the size dimension of business as a framework for your deliberations today. The number of small businesses is obviously affected by both the number of business startups and the number of businesses which cease to operate. The relative success of business startups and the number of business closures will, therefore, constitute the second part of my testimony. The third section of my statement covers sources of funds for micro-business startups. I am pleased to be able to share some recent research done by my office which provides information about the amount of funds required to start a business and also about the sources of those funds. Finally, I will briefly describe SBA programs relevant to your subject.

## II. SMALL BUSINESS' CONTRIBUTION TO THE ECONOMY

Small business is an important element of the American economy. Small businesses, defined here as businesses with fewer than 500 employees, produce 47 percent of the Nation's private output. Small businesses account for approximately 99.8 percent of the total number of businesses in the economy. These businesses employ 56 percent of the total private nonfarm nongovernment work force (Chart 1). I should point out that the 56 percent consists of individuals employed for wages and salaries by small businesses and self-employed individuals who represent individual small businesses themselves. In 1987, there were approximately 8.2 million nonagricultural self-employed individuals. From a business standpoint, each of these individuals should be considered an independent business.[1]

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[1] For a detailed discussion of self-employment as a business phenomenon, see The State of Small Business: A Report of the President, 1986, chapter 4, "Self-Employment as Small Business."

American business ranges in size from a General Motors at the top end, with 800,000 employees, to part-time businesses at the bottom end with annual sales of only a few hundred dollars per year.

Our SBA Small Business Data Base shows fewer than 15,000 businesses with more than 500 employees and fewer than 75,000 businesses with more than 100 employees. In contrast there are approximately 3.3 million businesses with from 1 to 19 employees (Table 1). The Small Business Data Base basically covers firms with employees. If we wish to discuss the total number of businesses in the economy, however, we have to consider a wide range of businesses that have less than one full-time employee. The simplest way to estimate the number of these businesses is to look at the number of IRS business tax returns filed with total receipts of less than $100,000. There are approximately 2.86 million businesses with annual receipts between $25,000 and $100,000. Most of the these businesses employ less than one full-time individual. In addition to these smaller businesses, there are also 8.4 million small businesses with total receipts of less than $25,000 per year. These businesses constitute what are normally known as micro businesses. Many of these micro businesses represent self-employed individuals working on a full- or part-time basis (Table 2). In addition, approximately 2.9 million of these individuals represent wage and salary workers reporting business income in addition to their wage and salary income. These individuals are the business equivalent of wage and salary workers who "moonlight" on a second job. The number of wage and salary workers who are operating a business on the side has grown phenomenally in recent years. From 1979 to 1983, the number of individuals reporting such income increased by 468 percent.

When we speak of business in the United States, we normally think of business with employees, with a specific business location, usually in an urban or suburban location. The reality is that the typical business in the United States is a business with one individual working less than full time. The next most common business in the United States is a self-employed individual working full time. Businesses with employees actually represent a minority of the total number of businesses.

## III. ANNUAL BUSINESS STARTS AND FAILURES

I am frequently asked how many business startups there are in a given year. There is no simple answer to this question, because there is no single source of data regarding business startups. Only businesses with employees need register with the Social Security Administration to obtain an employer identification number. Businesses without employees may register at the state level, if they are incorporated, or at the local level if they require local permits or business licenses. No one, to my knowledge, collects data about business startups from records maintained at the local level in this country. What seems like a simple question, therefore, concerning the number of new business startups, becomes a complex question. Let me attempt to simplify the issue by breaking the discussion into two sections, the first dealing with the number of business startups where there are employees, and the second dealing with the number of new self-employed individuals in the economy.

We know from published data on business failures that there are approximately 60,000 failures of businesses with employees per year. A failure in this case is defined as a closing of a business with a loss to at least one creditor. From studies of business closings, we know that approximately one closing in five is a business failure. Therefore, from the 60,000 business failures that we record annually, we can estimate a total number of business closures of approximately 300,000. Despite this large number of closures, our Small Business Data Base grows by approximately 250,000 companies per year. Therefore we estimate that there are somewhere between 550,000 and 600,000 births of new businesses with employees per year. In other word, for every two businesses which open, one business closes.

For self-employed individuals, data published by the Bureau of Labor Statistics shows an annual growth of roughly 250,000 to 400,000 self-employed individuals. From various studies conducted by my staff and from other research, we believe that there are approximately 250,000 individuals who leave self-employment each year. Many of these individuals shift to wage-and-salary jobs, some become unemployed, and some leave the labor force through retirement. If we observe annual growth of 250,000 to 400,000 individuals in self-employment and 250,000 people leave self-employment per year, then we estimate a total of 500,000 to 650,000 newly self-employed per year. At the micro level each of these new self-employed individuals represents a new business.

Adding our estimated number of new businesses with employees to the number of newly self-employed individuals per year, we reach a total estimated business startup number of 1,050,000 to 1,250,000 per year. If we view each new birth as a measure of the dynamism of the American economy, then the American economy produces many opportunities for growth and development in a typical year.

## IV. SOURCES OF FUNDS FOR NEW BUSINESSES

Most businesses are started with capital provided by the owner. The question of how much capital is required to start a business, therefore, is a critical question. Obviously, the amount of business capital required is a function of the size of the business startup, and we have seen from earlier discussion that the typical startup must be a small business, and for the most part must be a micro business. I am defining micro businesses here as businesses with expected annual sales of less than $100,000 per year.

Research conducted by my staff using Census data recently made available to us indicates that initial capital requirements for a typical small business startup are much smaller than many people would expect. Between 30 and 35 percent of total startups, for example, appear to require no out-of-pocket capital investment (Chart 2).

An additional 40 to 45 percent of business startups require total initial capital to begin or to acquire the firm of less than $5,000. There are differences between nonminorities, Blacks, and Hispanics with respect to the size of startup capital, but I wish to emphasize here not the differences but the similarities in terms of the amount of capital required to start a business. Independent of ethnic or racial background, 70 percent or more of all business startups require less than $5,000 in total initial capital.

Where does the needed capital come from? Sixty to 65 percent of respondents, depending on ethnic background, indicated that they borrowed none of their initial capital (Chart 3). Of those that did borrow, banks were the source of funds cited most frequently. Of those nonminority startups which borrowed funds, approximately 65 percent received funds from banks. A third of the respondents cited family and friends as a source of borrowed capital and approximately 18 percent of borrowers cited a variety of other sources, including financing by former owners and by government programs. Note that borrowers may have cited more than one source of borrowed funds.

Most business owners reported that they had no outside sources of equity capital at startup. Those businesses that did acquire outside equity cited family and friends as a frequent source of funds and also cited several of other sources including venture capital firms, partnerships with previous owners, and numerous miscellaneous sources.

There are some differences between minority and nonminority startups, but I wish to emphasize that the similarities appear stronger than the differences in many cases. Many business startups appear to require very little initial capital. Initial capital requirements appear to be provided primarily by the owner of the startup. In cases where outside borrowing is used, banks are a primary source of funding. In cases where outside equity is sought, family and friends appears to be the principal source of funds, but there are a variety of other sources depending on the nature of the startup.

## V. SMALL BUSINESS ADMINISTRATION RESOURCES

The Small Business Administration is the central focus, within the Federal Government, for encouragement and support of small business. The SBA accomplishes this support through several different program approaches. Of particular interest to the subject before the Committee are SBA programs focusing on providing new businesses with financial assistance and management development.

SBA is perhaps best known for its financial programs, although for reasons which are apparent we do not and cannot provide financial assistance to every conceivable individual or business that might qualify for it. For the new business, the most likely SBA financial program that he or she would investigate is the Loan Guarantee Program authorized under Section 7(a) of the Small Business Act. This program is open to individuals or businesses seeking capital for acquiring or expanding a business. The SBA provides a guarantee to a financial institution that the loan it advances to the borrower will be repaid. The interest rates charged are set by the bank but generally cannot be more than 2 3/4 percent above the prime rate. The amount guaranteed can be up to $500,000.

About one-third of the loans guaranteed by the SBA are to new businesses. The law requires us to make a loan only if the applicant cannot obtain credit elsewhere and where "there is a reasonable expectation for repayment." Because of these requirements, both the bank and the SBA make a careful decision about the credit worthiness of the borrower and his or her likely ability to repay the loan. The SBA and its guaranteed lenders do usually require the borrower to provide some of its own equity and collateral, although the specifics are always a matter of local decision.

Of greater significance to the broad class of individuals interested in starting a business are various SBA programs focused on providing basic management advice and counseling. The

SBA's largest, and in my opinion, most successful program of management counseling is our network of SCORE volunteers. These individuals provide low-cost, locally-delivered management training and counseling. Many of the people seeking advice from our SCORE network have an exciting idea for a service or product, but have no experience or awareness of how to ask and answer specific business questions about planning, marketing, and cash flow. The SCORE network can provide this link. In the past year, the SCORE program has conducted more than 2000 pre-business workshops to give prospective entrepreneurs the essential and basic information they need to start a business. I might mention that currently SCORE is negotiating with HUD officials on establishment of a business counselling center as a pilot project in public housing projects.

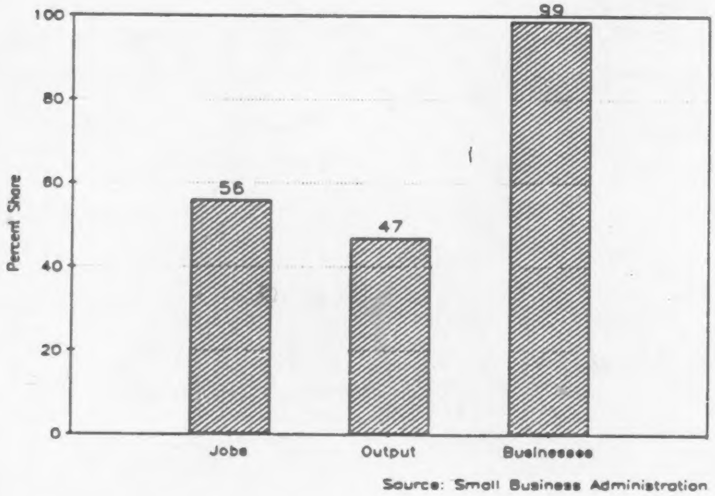
Frequently calls to the toll-free SBA Answer Desk, operated by the Office of Advocacy, are answered by us with a direct reference to a local SCORE Chapter. The SBA also supports two other business development assistance programs, Small Business Institutes and Small Business Development Centers. These programs also offer various types of advice and counseling, but often are better able to serve the existing business rather than the start-up firm.

The Small Business Administration has several other programs which focus upon categories of existing or potential entrepreneurs, including particular outreach to women, veterans, and handicapped. The SBA management challenge is to provide effective assistance, not only directly to entrepreneurs, but also to the groups and organizations already established in the business and educational systems which are in the best position to successfully assist the entrepreneur.

Finally, it would be misleading to discuss the government role in helping firms start without noting that too often government decisions effectively deter start-ups. Regulatory decisions which cost a business money may also mean less money available to hire and train workers. Government mandated worker benefits may be unaffordable to many of the very smallest and newest firms. Increased taxes lower an entrepreneur's interest in risking his or her money, time, and reputation in the community. To encourage individuals to start businesses, the overall economic climate must be positive. Growth and success must be a real possibility.

CHART 1

Small Business Contributions to the Economy



Source: Small Business Administration

## TABLE 1

### Number of Businesses and Employment by Employment or Receipt Size of Business

| Number of Employees or Dollar Receipts | Number of Businesses | Number of Employees |
|---|---|---|
| 500 Employees or More | 14,700 | 45,880,000 |
| 100-499 Employees | 71,600 | 13,374,000 |
| 20-99 Employees | 401,000 | 15,265,000 |
| 1-19 Employees | 3,319,000 | 16,661,000 |
| $100,000 - $25,000 | 2,861,000 | ------ |
| $25,000 - $1 | 8,443,000 | ------ |

Notes: Businesses with employees taken from U.S. Small Business Administration, Office of Advocacy, Small Business Data Base, USELM File, version 6 (1987). Businesses with receipts adapted from U.S. Department of the Treasury, Internal Revenue Service, SOI Bulletin 7, no. 2 (Fall 1987):67, 77.

TABLE 2

Number of Nonagricultural Self-Employed Workers, 1980-1987

| Year | Total Workers (thousands) | Male | Change | Female | Change |
|---|---|---|---|---|---|
| 1980 | 6,850 | 4,800 | | 2,050 | |
| | | | -1 | | +95 |
| 1981 | 6,943 | 4,799 | | 2,145 | |
| | | | +155 | | +164 |
| 1982 | 7,262 | 4,954 | | 2,309 | |
| | | | +182 | | +430 |
| 1983 | 7,575 | 5,136 | | 2,439 | |
| | | | +83 | | +127 |
| 1984 | 7,785 | 5,219 | | 2,566 | |
| | | | -12 | | +37 |
| 1985 | 7,811 | 5,207 | | 2,603 | |
| | | | +64 | | +7 |
| 1986 | 7,881 | 5,271 | | 2,610 | |
| | | | +152 | | +168 |
| 1987 | 8,201 | 5,423 | | 2,778 | |

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, (Washington, D.C.: U.S. Government Printing Office), various issues.

CHART 2

Distribution of Businesses by Amount of Capital Needed to Acquire/Start the Firm:
*Selected Demographic Groups*

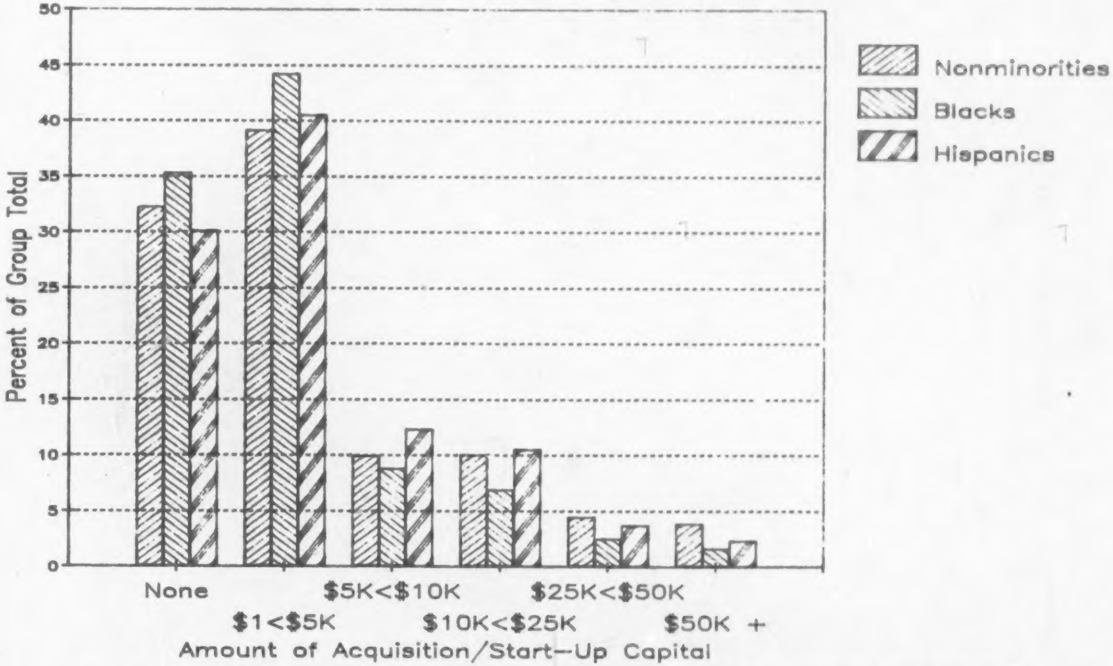
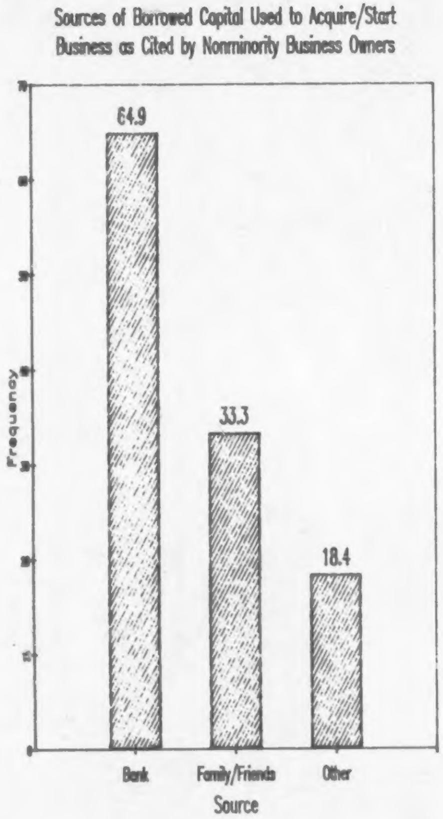
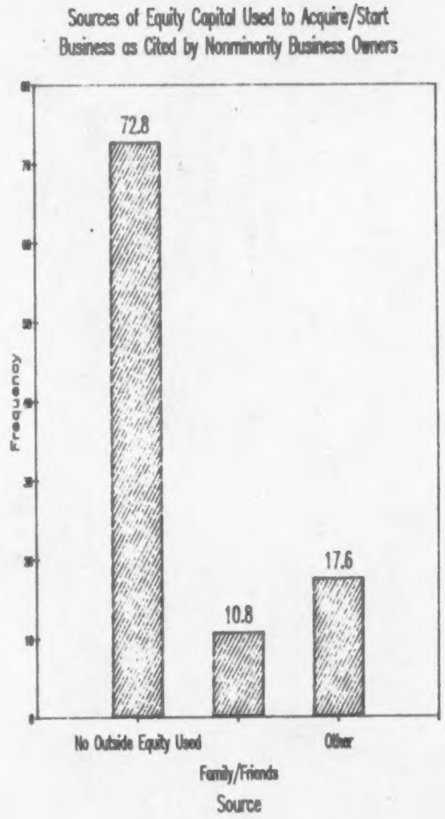


**Chart Prepared by the Office of Advocacy Using 1982 U.S. Census Survey Data**

CHART 3



Sources of Borrowed Capital Used to Acquire/Start Business as Cited by Nonminority Business Owners



Sources of Equity Capital Used to Acquire/Start Business as Cited by Nonminority Business Owners

ADDITIONAL QUESTIONS FOR FRANK SWAIN

Submitted by Hon. Mickey Leland

QUESTION 1. It is my understanding that, at one time, SBA sponsored an Equal Opportunity Employment Loan Program to encourage small business ownership among persons who lacked access to traditional lending sources. What is the status of this program?

ANSWER: The Economic Opportunity Employment Loan Program is still in existence. In Fiscal Year 1987, 539 loans were awarded. To date, in Fiscal Year 1988, through the end of April, 260 loans have been awarded.

QUESTION 2. Your testimony addresses the similarities in business start up capital required by minorities. What are some of the differences in the capital needs of minorities versus non-minorities?

ANSWER: The answer is based on Census data covering sole proprietorships. Comparisons between minorities and non-minorities, therefore, refer only to sole proprietorships within each group.

Minority and non-minority capital needs are much more similar than dissimilar, but there are some differences. For example, blacks who start small businesses are about 10 percent more likely to use very small amounts of capital, under $5,000, than are non-minorities. On average, blacks who start businesses have less start up capital than non-minorities. Another way of saying this is that for every capital size category but the lowest there are fewer blacks in that category proportionally than there are non-minorities.

When Hispanic startups and non-minority startups are compared by capital size class, the distributions are similar. For example, 40.6 percent of Hispanics report using $1 to $4,999 to start or acquire their firms, compared to 39.2 percent of non-minority startups in the same category. Approximately 94 percent of Hispanics reported using $2,500 or less to start their businesses, compared to approximately 92 percent of non-minorities. Non-minority owners were significantly more likely to be found in all categories reporting more than $25,000 of startup capital.

On the other hand, Asian Americans are likely to use more start up capital than any other category. On average, Asian owned businesses are started with larger amounts of capital than black, Hispanic, or non-minority businesses.

QUESTION 3. According to your testimony, 65 percent of the non-minority entrepreneurs receive start up funds from banks. Do you have a corresponding percentage for minorities?

ANSWER: Approximately 55 percent of black business owners borrow some of their start up funds from banks. The percentage for Hispanics is approximately 51 percent, and for Asians the percentage is approximately 44 percent.

QUESTION 4. What statistical information do you have on the income levels of individuals participating in the loan guarantee program?

ANSWER: The SBA has no statistics on income level. There is some income information in individual loan applications, but that has never been tabulated on a broad agency-wide basis.

QUESTION 5. You note in your testimony that loans up to $500,000 can be guaranteed under the program. What is the minimum loan amount?

ANSWER: There is no stated minimum loan amount under the loan guarantee program. The average loan amount for Fiscal Year 1987 was $159,944.

QUESTION 6. How amenable would the SBA be to establishing and maintaining a clearinghouse for micro-enterprise programs and developing a program for providing technical assistance to micro-entrepreneurs?

ANSWER: The Small Business Administration believes that micro-enterprise programs function best on a more local or regional level. At the local level the SBA does have resources that in many cases already provide assistance to micro-entrepreneurs. The SCORE Program provides a nationwide network of skilled retired business people who provide technical assistance and advice to SBA loan recipients or to individuals who attend the extensive series of small business seminars cosponsored by the Small Business Administration, SCORE chapters, local chambers of commerce, community colleges, and other sponsors. These workshops are an important source of technical information for individuals already in business or contemplating entering business. In addition to the SCORE Program, the Small Business Administration routinely sponsors major seminars on subjects such as starting a business at home, or utilizing a computer more effectively in your business. The Small Business Administration also co-funds Small Business Development Centers which serve as focal points for technical assistance to small business. In most states the network is spread throughout the state and the resources serve as a complement to technical information provided through SCORE volunteers.

In summary, the Small Business Administration believes that clearinghouses for micro-enterprise programs are best maintained at local or regional levels. Technical assistance to micro-entrepreneurs would be available through the SCORE Program, the Small Business Development Centers, and the many seminars sponsored by the Small Business Administration.

QUESTION 7. How would you suggest we tap economic development program funds to help support micro-enterprise activities?

ANSWER: I believe that existing authority in many economic development programs would allow support of a micro-enterprise program. My suggestion is that initial activity be focused on demonstration efforts on a relatively small scale. As I said in my testimony, and I believe as echoed by Mr. Gray and Mr. Friedman, the initial difficulty will be establishing a program delivery mechanism that insures that appropriated funds go to the recipients who need the funds. Commercial lending, even on a micro scale, is serious business and, if the program is to succeed, the expert lending capability must be developed. Cooperative efforts cosponsored by local banks might well provide the training background needed by program authorities. The focus of any program should be on improving the function of existing delivery systems in serving this part of the small business sector, not on creating new, duplicative agencies or organizations.

ADDITIONAL QUESTIONS FOR ROBERT FRIEDMAN

Submitted by Hon. Mickey Leland

### Question One

**What changes would you recommend in the Community Reinvestment Act to enhance the expansion of micro-enterprise funding sources for the poor?**

More specific provisions which explicitly require banks to (a) meet the business credit needs of their communities, (b) report type, size, and location of business loans, and (c) show reasonable attempts to meet the credit needs of small borrowers and low-income business-owners.

### Question Two

**What are your projections on the success of the Reconciliation Act Provisions permitting the use of unemployment benefits as start-up capital for small business development?**

The OBRA provisions will allow and highlight the efforts of three states to extend self-employment allowances to dislocated workers (up to the regular UI compensation for which they would have been otherwise entitled). I am cautiously optimistic about the prospects of this demonstration given the record of the European programs, the quality and interest of the selected states, the seriousness with which the U.S. DOL is pursuing these experiments, and -- last but not least -- the capacity of unemployed people themselves.

It is important to recognize, however, that the OBRA provisions impose significant limitations on such experimentation: (1) only three states are entitled to the exemption from current requirements; (2) participating states bear the entire financial risk; (3) participating states must underwrite the costs of an impact evaluation; (4) no lump sum payments are permitted (though lump sum commitments are allowed); (5) no administrative or other supporting investments (e.g., seed capital, entrepreneurial training) are provided. I suspect that many states will not wait until the conclusion of the currently authorized demonstrations to launch their own efforts, using the flexibility provided by the approved training provision (wherein UI recipients enrolling in state-approved or JTPA Title III-funded entrepreneurial training programs can continue receiving UI benefits).

Broader authorization for additional demonstration efforts would not be imprudent or unwarranted. Indeed, even more generally, I believe it is not too soon to try to remove from the entire range of transfer payment programs (AFDC, Medicaid, UI, Food Stamps, Social Security) the provisions which penalize recipients who pursue self-employment as a route to self-sufficiency. Specifically, we should seek to maintain eligibility and benefit levels for a reasonable start-up period (six months to two years) while recipients pursue self-employment. Meanwhile, we should try to make existing economic development and training programs better serve this clientele by providing seed capital, entrepreneurial training, etc. Some new initiatives aimed at supporting self-employment for the unemployed and disadvantaged may be needed as well.

**Question Three**

**What are the five states experimenting with Transfer Payment Investment, and how are these programs operating?**

Minnesota, Michigan, Mississippi, Iowa and New Jersey are participating in the Corporation for Enterprise Development's Self-Employment Investment Demonstration for welfare recipients. As more fully explained in the attachment, reforming state regulations, each participating state is setting up pilot projects in one or two sites which provide entrepreneurial training, seed capital and support services to clients wishing to pursue self-employment. The participating states are at different stages of start-up, with Minnesota already training clients in one site, while New Jersey awaits final legislative authorization. The programs will operate under waivers provided by the Department of Health and Human Services.

Other transfer payment-based self-employment initiatives are underway or being started: for example, the Chicago Women's Self-Employment Program is operating a pilot for 20 AFDC recipients who have been put on State aid (in order to obviate the need for Federal waivers) with the support of the Illinois Department of Public Aid.

Other states and local organizations are initiating self-employment projects and going beyond more maintenance to pursue other "transfer payment investment" initiatives aimed at encouraging and supporting economic self-sufficiency through training, education, employment and economic development.

**Question Four**

**How would you suggest expanding the use of federal community development monies to foster micro-enterprise ventures?**

Specific language in the Community Development Block Grant authorization or appropriation bills clarifying that seed capital for disadvantaged entrepreneurs is a legitimate and desirable use of CDBG funds would be helpful. One could go further to encourage localities and other administering entities to make one percent of CDBG funds available for seed capital funds. Other community development funds could be similarly charged.

## PREPARED STATEMENT OF PAULA MANNILLO, DIRECTOR OF FINANCE, WOMEN'S ECONOMIC DEVELOPMENT CORPORATION (WEDCO), MINNEAPOLIS, MN

The Women's Economic Development Corporation is a 4 1/2 year old non-profit that was started to help women achieve economic self-sufficiency through the start-up and operation of a successful small business. WEDCO targets unemployed and underemployed women who have a business idea that could produce sufficient income to support themselves and their families. Our work is primarily within the Twin Cities Area with some work in rural parts of Minnesota. During the last 4 1/2 years WEDCO has assisted over 3,500 women, approximately 1/2 of those women were convinced that their business idea was not economically feasible and they chose not to pursue their business. WEDCO assisted 650 businesses to start and expanded another 380 businesses. The remainder of the clients were existing business that were experiencing some difficulty and WEDCO assisted in problem solving and stabilizing or closing the business.

WEDCO operates a 1.2 million dollar loan fund that finances women owned businesses. The organization also maintains a strong working relationship with a number of local financial institutions. WEDCO has an ongoing working relationship with the First Banks in Minnesota which agreed to provide loans at market rates but negotiate collateral and equity. WEDCO uses its loan fund as last resort financing for those individuals who do not have the credit history, collateral or appropriate business idea for bank financing. Our applicants must have been denied by a bank and exhausted all other possibilities of financing before WEDCO will review the application. We further require that the individual work with our organization to produce a business plan, cash flow projections for two years and agree to ongoing technical assistance during the life of the loan. WEDCO forms a working relationship with the applicant which in fact becomes our collateral over the life of the loan.

Over the last four years, WEDCO has made over 85 direct loans to women owned businesses.

| | | |
|---|---|---|
| Loans Distributed: | 85 | $416,864.46 |
| Loan Repaid: In Full | 23 | $135,644.82 |
| Default: | 6 | $ 21,021.00 |
| Default Rate: | 3% | |

The WEDCO process begins with each woman explaining her business idea to an assessment consultant. A contract is negotiated and a sliding fee ranging from $60 an hour to $1 an hour is negotiated at this session. Each individual is assigned a staff consultant and begins working on the business plan. This usually begins with individual consulting sessions around the marketing section including the target market, competition and promotional strategies. If they decide to continue with the business idea after this research, they are then assigned a financial consultant who works with them to complete the cash flow projections. Each individual completes a month by month two year projection of income and expenses. The final step is to complete the loan application which includes a personal net worth statement, WEDCO application, a credit check with the credit bureau and any other supporting documentation.

Each application is reviewed by WEDCO staff and then presented to a loan committee. The loan committee is composed of 7 individuals with banking, marketing and business experience. They review final applications and make the decision on the loan terms and interest rates.

WEDCO has a successful track record for a number of reasons. We do not believe that you can put an entrepreneur in a classroom and teach them for 16 weeks and expect them to be a business owner. We believe that a hands-on, experiential, task oriented planning process is needed for each individual to assess the economic viability of their idea. We are as strong about preventing failures as we are about encouraging success. We utilize self-screening which puts the responsibility on the business owner to pursue their idea. WEDCO does not believe in picking the winners and losers in the market place but rather giving the information tools and a homework process to the woman for her to make her own decision. We are looking for women who have a passion, skill and expertise, good problem solving skills and the willingness to follow through. We think these ingredients make a successful business owner and have designed a process that allows these skills and attributes to surface.

WEDCO represents a model for a type of micro-enterprise loan fund that combines technical assistance, individual consulting and financing. We sit on both sides of the table in that we work with the individual from the idea stage to the planning stage to the financing and operation of the business. We provide ongoing assistance throughout the life of the loan and not just during the initial start-up stages. As with other micro-enterprise organizations around the country we face a difficult time raising money. Our funding is from private sources such as foundations and corporations with an annual budget of approximately $500,000. We must raise this each year in new contributions and grants. As of yet, government has been unresponsive in funding organizations such as WEDCO. We do not neatly fit into categories of human services, economic development or jobs and training. We combine all three and thus overlap several different organizational programs within state and local government.

WEDCO is a model that works, having an important impact particularly with low income women in providing them opportunities and choices. We are building new role models and seeding the economy with new experiences. We believe our outcomes are multiple and need to be evaluated from the perspective of the long haul. The country is hungry for quick fix models to end poverty, create jobs and successful businesses and transform welfare recipients into tax payers. There are no quick fixes to solving poverty. Creating jobs and economic change requires time as much as money. We must use a longer time frame and provide opportunities to the economically disadvantaged. They will then be better able to pursue their own ideas and develop their own opportunities.

Thank you.

ADDITIONAL QUESTIONS FOR PAULA MANNILLO

Submitted by Hon. Mickey Leland

QUESTION 1. ON AVERAGE, BUSINESSES ASSISTED BY WEDCO CREATE BETWEEN THREE FULL-TIME, AND FIVE PART-TIME JOBS EACH. WHAT ENCOURAGEMENT DO YOU PROVIDE YOUR CLIENTS TO HIRE LOW-INCOME PERSONS?

All businesses assisted by WEDCO are independent businesses and therefore not subject to any particular control by WEDCO over policies and procedures. Because most of the women involved are or have been low income persons themselves, many of them make a conscious effort to help other people in the same positions.

QUESTION 2. YOUR SERVICES ARE TARGETTED TO UNEMPLOYED AND UNDEREMPLOYED WOMEN. WHAT ARE YOUR VIEWS ON THE PROVISIONS IN THE RECONCILIATION ACT WHICH AUTHORIZE THE DEVELOPMENT OF DEMONSTRATION PROJECTS TO PERMIT THE USE OF UNEMPLOYMENT FUNDS AS STARTING CAPITAL FOR SMALL BUSINESSES?

From what I have read about the success of programs in France and England using unemployment funds as start up capital, I would give the demonstration projects qualified support. I firmly believe that small businesses started by non-traditional entrepreneurs need education and support as much as they need money. If the demonstration projects do not provide ancillary services besides money, I am concerned that they will not work out.

QUESTION 3. WHAT SPECIFIC STEPS ARE YOU TAKING TO REPLICATE YOUR MODEL IN OTHER COMMUNITIES?

WEDCO has been working for the last several years to adopt a model that we felt would be useful to other communities across the United States. Currently we are working with San Francisco(CA), Des Moines(IA), Butte(MT), and Milwaukee(WI) on full blown attempts to replicate the agency as well as the processes and techniques. We have consulted with numerous other communities and participated in many training sessions regarding our consulting process. The difficulty we face with this is the age old problem of money. The communities who most need the service can not afford to pay us to provide it to them and we can not afford to do it for nothing.

QUESTION 4. AMONG YOUR LOW-INCOME CLIENTS, WHAT TYPES OF BUSINESSES HAVE ACHIEVED THE GREATEST AMOUNT OF SUCCESS?

The types of businesses that have achieved the most success are all over the map. We have a majority of service businesses since they are least capital intensive. Many of those have helped women become self sufficient and then employers. We seem to have the least success in businesses that require large amounts of capital expenditures in the start up phase; examples of these businesses are retail stores that spend many dollars on leasehold improvements and inventory, or restaurants that have to put in new kitchens.

Submitted by Hon. Bill Emerson

Question 1. Ms. Mannillo, could you tell the Committee about other successful programs throughout the United States other than WEDCO. For example, has the WEDCO program been replicated in other cities?

Wedco is currently being replicated in San Francisco, Des Moines, Iowa, Butte, Montana, and Milwaukee, Wisconsin. Wedco was also the prime model for the Women's Self Employment Project in Chicago and other self employment projects in Philadelphia and Newark. There are numerous other small business development efforts in the United States. Coastal Enterprises Inc. in Wiscasset, Maine offers a wide variety of similar services and loan funds to residents of Maine. Community Development Corporations offer small business services to neighborhoods and their residents. The Corporation for Enterprise Development keeps more complete documentation on these kinds of efforts.

Question 2. What kind of fee does WEDCO charge their clients for services rendered?

WEDCO charges fees on a sliding scale basis with $60.00 per hour as the top fee and $5.00 per hour as the lowest fee. All clients pay some fee. For the women in our Self Employment Training Opportunities program, the fee is $1.00 per class session.

Question 3. Ms. Manillo, could you elaborate and tell the Committee about the training sessions which are held for your clients and also how successful they've been?

Wedco has several different ways to access its services. As a client of the Self Employment Training Opportunities program, participants go through an extensive series of group classes that cover everything from personal effectiveness to marketing and pricing your product to creating cash flows. Clients who come for individual consultations go through an orientation session called Start Smart and a group session called Business Clinic during which they write a marketing plan. After completing the Business Clinic, clients work individually with financial consultants to do cash flows and loan packaging. We find these methods of educating the clients to be very effective and powerful tools in helping the individual become a better problem solver and take responsibility for conduting her business on her own.

Question 4. Ms. Manillo, could you explain the concept of "stepping loans?"

"Stepping loans" refers to the idea of loaning the individual enough money to take the first step in her business, have some success with it, make some payments back on the loan and then come back for a larger loan for the next step. This limits the amount of risk on both sides. It also allows the borrower to build some success at meeting obligations in a timely fashion. Many of the individuals that we are working with do not have experiences with mainstream economic systems such as checking accounts or loans.

## MATERIAL SUBMITTED BY JANE REEVES, WEDCO MEMBER

### I. BUSINESS DEFINED

A. Designing and producing women's "Ready-to-wear" clothing.
  1) comfortable basic styles.
  2) natural, colorful fabrics.

B. Volume production.
  1) Four lines per year.
  2) 25 pieces per line, avg.
  3) Responsible for: Designing, Producing, Marketing, Advertising, Overseeing Sales and Production, Accounting, Purchasing and Customer Relations.

### II. WHY I STARTED THE BUSINESS.

A. Frustrated with full time work outside the home:
  1) Single mother, full time job.
  2) 3 hours a day commuting.
  3) 1 hour a day with my children.
  4) Monthly expenses plus Day care exceeded income.
  5) Forced to go on AFDC.
    a) Humiliation.
    b) Bureaucracy

B. Dream to Reality.
  1) Idea of selling clothes in retail stores.
  2) Created sample garments with last check from job.
  3) Established small but loyal clientele
  4) Needed business consulting and financing.
  5) Friend in park told me of WEDCO.
  6) Called WEDCO and became a member.

## III. WEDCO.

A. How WEDCO supports women in business.
    1) WEDCO listened to me in a non-threatening, supportive
    2) WEDCO understands the special needs of women in business.

B. Technical assistance.
    1) WEDCO assisted me in developing a viable business plan.
    2) Process involved instruction and assistance in:
        a) Marketing
        b) Pricing.
        c) Advertising.
        d) Sales.
        e) Accounting.
        f) Financing.

C. Workshops.
    1) Ranging in topics from tax shelters to raising self esteem.
    2) Provide networking opportunities.

D. Loan Fund Program.
    1) After business plan was complete, it was submitted to the Loan Fund Committee and approved.
    2) Enables women in business who are supporting children to go off AFDC and be self-sufficient.

## IV. OBSTACLES

- A. Time management.
    - 1) Finding enough time and energy to run all aspects of business.
    - 2) "                                        " raise children.
        - a) Burnout.
- B. Finances.
    - 1) Traditional lenders refuse to help.
    - 2) Cash flow a problem.
        - a) 3 or 4 seasons simultaneously.

## PREPARED STATEMENT OF JAY ROSSIER, COORDINATOR, FUNDS FOR AFFORDABLE HOUSING, SELF HELP ASSOCIATION FOR A REGIONAL ECONOMY (SHARE), GREAT BARRINGTON, MA

Good morning. My name is Jay Rossier and I am here representing the Self-Help Association for a Regional Economy, known as SHARE, located in Great Barrington, Massachusetts. It is a privilege to be able to present the SHARE program to the distinguished members of the Committee and their capable staff. Our appreciation for the opportunity and our appreciation for your concern in investigating the causes of hunger in this country and possible solutions to those problems.

The Berkshire Hills of Massachusetts are known for their beauty and summer cultural attractions. The Southern Berkshires are a rural area with small hill towns centering around Great Barrington in the Housatonic River Valley. There are a few large paper mills, but the major industry is still tourism, which means seasonal employment and low paid employment to those who service that industry. There is a rapidly escalating second home and vacation home market from run away urbanites and this provides steady employment for carpenters, plumbers and electricians, but at the same time it creates a rise in housing costs that is pushing year round residents further and further from their place of employment in an effort to find housing that they can afford.

Two incomes to a household are necessary to make the rent payments and do the shopping, but well paid employment opportunities are scarce.

The English economist, E.F. Schumacher, author of SMALL IS BEAUTIFUL suggested a regional approach to the solving of economic problems. He pointed out that the creation of many small businesses that produced products in the region of their consumption, would facilitate more diversified jobs that would foster greater flexibility in times of economic crisis and so lead to a more sustainable regional economy than the development of large, centralized, high technology dependent industries.

Schumacher's ideas inspired the creation of the SHARE program. SHARE is a non-profit open membership organization which grew out of the concern of Berkshire residents to find a way to provide much-needed, low-cost credit to emerging small businesses. We discovered that, in rural areas, where many small businesses begin in the home as cottage industries, a very small amount of capital will go a long way in providing new jobs and encouraging the local production of goods formerly imported from outside the region. A knitting machine for the mother working in the home while caring for a family, a table saw for the carpenter, and an institutionalsize oven for the local baker are all low-cost technologies which are quickly repaid with the increase in productivity.

However, the increasing centralization in the banking industry, where small local banks are bought up by large holding companies, has tended to drain rural areas of deposits for pooling in urban investment. After all, from one point of view, it is more efficient to make one $250,000 loan than it is to make one hundred $2,500 loans. The small rural borrower, often without established credit references, finds himself or herself competing with international corporations for financing. When the small loan is approved, it is at the penalty of a higher interest rate - a rate so high as often to make the emerging business unfeasible.

We also identified, in our region, a number of investors who wanted to know where their money was invested. They were seeking a financial vehicle with criteria which reflected their social and environmental values. These socially concerned investors were not really satisifed with the assurance that their money was being lent in a "good" way; they wanted to see what their money was doing tonight; their human interest was aroused. They wanted to know the story of the business: How did it start, whom does it employ, what are its new products, where are they sold? They were seeking more than an 8 per cent clean return. They sought to bring a human face back into financial affairs.

We explored the possibility of starting a credit union, but we found the overhead costly and found that even the Community Development Credit Unions were reverting to consumer loans. Our priority was new businesses, and that meant productive loans. Following E.F. Schumacher's lead, we judged the simplest solution to be the most appropriate. So we decided to work with a local bank on the program, asking the bank to manage the deposit accounts, and reserving to SHARE and its members, the decision as to which local businesses would receive low interest loan collateralization support.

We asked each bank in town for its Community Reinvestment Act Statement and Annual Report. The one bank which was still fully owned locally, proved to have the best record of reinvesting in the local area; so we approached it first.

Six of the founding members of SHARE sat down with the president and four vice presidents of the bank to discuss the proposal. "Two costly to manage," we heard from the vice presidents. "Small deposits and small loans. Just a lot of bookkeeping." Our hopes faded. But then their president spoke. He had been raised in the area, had worked his way up in the bank from a position as teller, and could remember the time when loans were made on the character of the borrower, with little paperwork. He instructed his vice presidents to "work out all the details of the proposal with these people, so that we can have the SHARE program at this bank. They are planning to do what we should be doing and are no longer able to do. They should have our encouragement."

In a month's time, the details of the program were in place, and we found our first depositors and first borrower. Anyone in the Berkshire area wishing to become a member of SHARE simply goes to the service desk of the Great Barrington Savings Bank and opens a 90 day notice passbook savings account that is written as a joint account with SHARE. The account earns 6 per cent interest and is fully owned by the depositor. However the depositor contracts with SHARE that the account may be used to collateralize loans not normally qualifying for a bank loan, but meeting SHARE's social, environmental and financial criteria. The passbook is left at the bank for SHARE to collect.

On approval of a loan collateralization request, a SHARE board member goes to the bank with the applicant and enough passbooks to stand security for the loan. The bank actually makes the loan and handles all the paperwork charging a low 10 per cent interest to the borrower and keeping the 4 per cent spread over the cost of the money for its fees in servicing the loan.

There are now over 70 depositors in the SHARE program. We thought at first that the depositors would be the wealthy members of the community, putting aside a portion of their funds into social investment. But instead we found that the majority of SHARE depositors are poor people, who have taken their full $500 savings to open a SHARE account. The reason is simple. They see that the SHARE program has made a difference for people like themselves, and they want to participate. Their savings are no longer just a small drop in a large investment pool, but a significant amount in a new effort to build their community. As depositors in SHARE, they are members of SHARE and can elect the board of trustees and help shape loan collateralization criteria.

SHARE has completed 14 loans of under $3,000 through this pool of credit. In addition, it has facilitated over $250,000 of low interest loan money to the Community Land Trust in the Southern Berkshires for purchase and development of a 20 acre site for leasing to year round residents for affordable housing. The purchase of land is outside the criteria of the pooled Credit Fund of SHARE, but through it Direct Loan Fund, SHARE can link individual investors directly with socially responsible projects not qualified to apply through the Credit Fund. The risk on these loans is taken directly by the investors rather than spread among all SHARE members.

A sampling of the loans collateralized through the Credit Fund is representative of the diversity of small businesses in rural areas. Sue Sellew of Rawson Brook Farm makes a soft Chevre cheese from the milk of her dairy goat herd and the herbs which she has grown on her organic farm. She needed $5,000 to complete her milking parlour and cheese room according to state standards, thus enabling her to sell the cheese through stores and restaurants. The loan was made over two years in five installments as the building proceeded. She now has a thriving business, and Monterey Chevre is popular in the area.

Jim Golden has trained his two draft horses, Spike and Rosie, to haul timber and fire wood from forests. In contracting work with forest landowners, Jim can assure the owner that the woods will be treated in an ecologically responsible manner without undue stress on the land caused by heavy equipment. The loan was to complete a barn for the team.

Bonnie Nordoff has a knitting machine in her home which takes bulk weight yarn. She knits sweaters, tights, leg-warmers and scarves for children and adults using her whimsical colorful designs. The first part of her loan was for $400 to buy a bulk supply of yarn, thus lowering her overall costs and establishing credit with suppliers. When the loan was almost repaid, Bonnie came back to SHARE and asked for an increase in her loan, so that she could purchase a machine which could take lighter weight yarn for summer sweaters.

When this loan was almost repaid, she returned again to tell us that she now had a monthly contract to produce a certain number of sweaters of her design and that she would need another machine to employ a new worker. We told her that she did not need SHARE any more; she could go directly to the bank and request a loan. She was surprised because she had never had credit before. We explained that her last two loans had come from the bank, though collateralized by SHARE. All of her payments were on time, and the bank had a record of that payment schedule; so she now had credit. She called a week later, jubilant that the bank had given her a loan.

Marty Greenhut makes house calls to repair washers and dryers, and reconditions old machines in his shop for resale. His is a valuable service in a rural area which would otherwise be dependent on service people travelling some distance. Marty's loan was for a supply of extra parts for repairing machines.

Kites of the Four Winds produces large colorful kites from designs of its manager, Sally Van Sant. The business is labor-intensive and permits sewers to work in their own homes. One of her suppliers, discontinuing a line of fabric used in making the kites, offered Sally a quantity of material for half price. The $3,000 loan, collateralized by SHARE, was paid off in six months, largely through the savings realized on the fabric.

While in form SHARE is simply a loan collateralization program, in practice it has proved much more. Members receive quarterly letters describing which businesses have received collateral support. They then take a personal interest in the business. They bring their grandchildren to see the new goat kids at Rawson Brook Farm; they root for Spike and Rosie at the local draft horse pulling event; they recommend Marty to a friend when a washing machine is in trouble; and they boast that Terry, whose loan went to buy a piano, is the best music teacher in the area. They choose Monterey Chevre cheese before national brands and ask for it at shops where it is not yet available. And they think of Bonnie's sweaters and Sally's kites at birthday times.

What began as an alternative source of funding for small businesses has taken on other dimensions, linking investor and borrowers in human ties of mutual responsibility. When Sue Sellew's house at Rawson Brook Farm burned down two winters ago, SHARE members formed a telephone chain to inform one another. The next day, she had a temporary place to stay, new clothing and household items, offers of help to design and build a new home, and an extension of her loans. Sue and Wayne have moved into their new house, the home also of their adopted daughter, Rain. The business was untouched by the fire, and Sue had the good courage to meet the challenge, with a little help from her friends. The SHARE loan is paid in full and Monterey Chevre is a Berkshire standard.

The success rate of SHARE collateralized loans has been 100%. Those 14 new businesses have created over 40 new jobs in the area. All this has been accomplished with private funds and volunteer help and an initial start-up grant of $200.

Could we have done more? Certainly. With a steady outreach program, SHARE could have served more potential borrowers.

Are deposits a problem? No. There is such a quick turn over on loans that the small pool of $26,000 is sufficient to service a program with even three times the loan activity.

What else has SHARE accomplished? Over 15 SHARE members made low interest construction loans to the Community Land Trust totalling $200,000. This enabled the Land Trust to reduce costs on the housing units it is building at its Forest Row site in Great Barrington. The first ten families have moved into these units, moving from a rising rental market into homes which, in some cases, they helped to build themselves. It was big leap forward for some of these families and scary. But they saw that there were people in their town who cared enough about affordable housing to lend at below market rates. As a result, those families feel less alone, and they face the still significant work ahead of them with good spirit. Ties are made which build toward a permanent local community on a healthy economic basis.

In addition the Community Land Trust created a second mortgage pool known as the Fund for Affordable Housing. With loans of $97,500 from 29 individuals, many of them owners of second homes in the area, the Fund was able to give additional financial help in the form of below market mortgage rates to five of the families at the Forest Row site. This participation of second home owners helped to heal the wounds between those with more than enough and those with too little.

Dorothy Stoneman and John Bell, summer residents of the Berkshires, who helped with the organization of the Fund, wrote in a letter to Fund investors, "For ourselves, when the stock market crashed, we were pleased we had invested in the Fund for Affordable Housing!" They found that local investment also proved to be secure investment.

# Great Barrington Savings Bank

## SHARE PROGRAM

an investment in your community

### *WHAT IS SHARE? (Self Help Association for a Regional Economy)*

SHARE is a non-profit organization established by local community members. Membership is open to anyone in the community.

The purpose of SHARE is to encourage local and regional self-reliance by securing loans offered at attractive rates of interest to businesses or individuals who are providing services or producing goods which meet SHARE criteria, but who are unable to obtain conventional bank financing. To meet this goal SHARE has created the SHARE Credit Fund in cooperation with the Great Barrington Savings Bank.

### *SHARE LOAN CRITERIA*

The primary criteria for loans secured by the SHARE Credit Fund include whether the loans will create greater regional self-sufficiency in the production of basic necessities (food, shelter, energy) or in providing basic needed community services (transportation, health care, job training, legal services).

Other criteria would include whether the loan purpose will increase local employment and/or use local resources, conserve energy and be non-polluting to the environment.

As a matter of procedure SHARE will exercise sound financial judgement in evaluating potential borrowers.

The SHARE Credit Fund does not secure consumer loans except when providing access to basic human needs.

Loans secured by the SHARE Credit Fund will be short term and preferably self-liquidating in that funds loaned will create savings or greater productivity which can then repay the loan.

Only members of SHARE qualify for loans backed by the SHARE Credit Fund.

### *HOW DOES THE SHARE CREDIT FUND WORK?*

Anyone wishing to become a member and to support the SHARE Credit Fund may do so by opening a 90 day notice account at the Great Barrington Savings Bank, designating the account as a SHARE account. The account will be structured as a joint account with SHARE. On opening the account the depositor authorizes SHARE to earmark up to 75% of the deposit balance as cash collateral in support of local

(Document A). This account will function otherwise in the same way as other 90 day notice accounts. It will earn interest and, except in the event of a loan loss, only the depositor may withdraw funds from the account.

*INITIAL DEPOSIT* $100.00 minimum.

### *ADDITIONAL DEPOSITS*

New deposits may be made at any time by sending or taking the deposit directly to the bank along with a deposit slip.

*INTEREST* 6% compounded continuously.

* * *

### *PASSBOOKS*

Passbooks will be held by SHARE for the purpose of securing loans which meet SHARE's criteria. On opening the account, the depositor signs a pledge agreement (Document B) permitting SHARE to use the passbook as security under the terms of the agreement between SHARE and the depositor. Except in the event of a loan loss, the depositor has full ownership of the assets in the account. SHARE will take passbooks to the bank on a bi-monthly basis for up-dating.

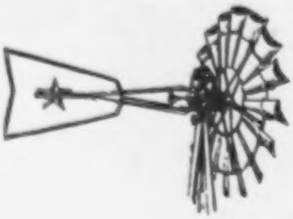
### *STATEMENTS*

Depositors will receive quarterly statements with interest posted as of statement date. Account title to read:individual's name/SHARE Credit Fund. Account balances can be obtained at any other time by sending a written request to SHARE (Document C).

* * *

### *LOAN POLICY*

In general loans will be written on a monthly basis and will not exceed a two year period. All loans will be made by the Great Barrington Savings Bank after consent from SHARE. Authorization by SHARE can be made in amounts equal to, but not to exceed, 75% of the total Deposit Balance (i.e. the aggregate of all depositors' accounts). No one loan will exceed 20% of the total loans permitted or $3,000 maximum.



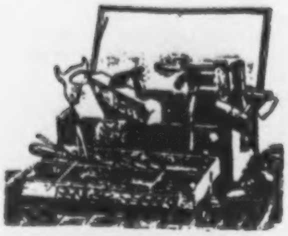
### *NOTICE TO DEPOSITORS*

A depositor to a SHARE Credit Fund account should understand that a portion or all of his/her money may be attached as "Cash Collateral" to secure loans which meet SHARE's loan criteria. Therefore, withdrawals may occassionally be restricted until loans are repaid. In the event of a loan loss, a portion of a depositor's balance may be used to offset the loss. Thus while a depositor's balance may be "at risk," SHARE's loan policy is designed to minimize such risk.

## *WITHDRAWALS*

Withdrawals can be made by sending a signed withdrawal slip to SHARE 120 days in advance of the intended withdrawal. Withdrawals will be honored by a bank check sent in the mail on the due date, provided that such withdrawals do not reduce "Cash Collateral" below the amount of "Loans Outstanding." In the event that a depositor is restricted from withdrawing funds, his/her withdrawal slip will be time-stamped by SHARE, and a duplicate returned in the mail. As and when funds become available through the repayment of outstanding loans, withdrawal slips will be honored in order of receipt. While there is the possibility of delayed payment, it should be pointed out that SHARE's "loan policy" prevents the making of any new loans which would bring the total outstanding loans to more than 75% of the total deposit balance. Thus, ordinarily at least one quarter of all deposits in SHARE Credit Fund accounts would be available should a withdrawal be necessary.

SHARE depositors are encouraged to view their accounts as long term "investments" in their community. Frequent withdrawals are discouraged in order to meet SHARE's goals and keep servicing costs to a minimum.



## *ASSOCIATIONS*

The members of SHARE are the heart of the SHARE program. The SHARE Associations, built upon cooperation between producers and consumers, form the structural basis of the SHARE organization. They will make recommendations on loan applications seeking backing from the SHARE Credit Fund and help to develop locally based economic, social and cultural activities.

Producers, with their expertise as farmers, business people, craft persons and professionals, can help evaluate new loan applications and judge their viability. Consumers know which products are missing in the local market and can suggest new business ventures to meet local needs. By making advance orders they can also help secure the success of those ventures. Working together, we can all help to bring a new economic vitality and self-reliance to our community.

For these reasons SHARE members are encouraged to take an active role in the SHARE program through participation in one of the associations.

*MEMBERSHIP IN SHARE*

Members of the local community are encouraged to join SHARE. A deposit balance of $100.00 in a SHARE Credit Fund account and initial membership fee of $10.00 are the only requirements. Members will be kept informed on a regular basis of SHARE activities.

*SHARE MEMBERSHIP FORM*

return to: *SHARE, Box 125, Great Barrington, MA 01230*

I would like to become a member of SHARE. Enclosed is my membership fee of $10.00

___ I have opened a SHARE Credit Fund account at the Great Barrington Savings Bank.

___ I have not yet opened an account. Please send forms for doing so by mail.

___ Please send me a copy of SHARE's by-laws.

The Association checked below is of most interest to me. Please let me know of its next meeting.

___ *Agricultural (SHAREcroppers)*
___ *Alternative Energy*
___ *Homeowners and Builders*
___ *Cultural and Educational*
___ *Health Care*
___ *Cottage Industry*
___ *Small Business*
___ Consumer Cooperatives
___ Forestry
___ Social Service

Name ___________________

Address ___________________

*WHO BENEFITS FROM SHARE?*

"We all do! Open your account at the Great Barrington Savings Bank today."
"Is this any way to run a bank?"
"You bet it is!"

S·H·A·R·E

Self Help Association for a Regional Economy

For more information request a full packet of SHARE material from the bank's service desk or write:

SHARE
P.O. Box 125
Great Barrington, MA 01230

[From the Christian Science Monitor, Nov. 3, 1986]

# Promoting regional enterprise

## SHARE loans benefit small, local business ventures

FRANK [illegible]

Sue Sellew and co-workers: SHARE does what local banks 'used to do'

**By Robert Pease**
Special to The Christian Science Monitor

Great Barrington, Mass.

In the present business climate, it might be possible to take a 10 percent productive loan for granted. But in Berkshire County, Mass., the SHARE program (Self-Help for a Regional Economy) has been administering 10 percent loans to small businesses since the high interest rates of 1983. Not only are SHARE loans low interest, they are targeted to entrepreneurs with no other source of credit. That is, without established collateral or previous credit record, in most cases. And presently the group has plans to administer such loans at 3 percent through issuance of local currency.

"The scale of financial institutions does not work for the creation of small businesses on a regional level," says Robert Swann, president of the E. F. Schumacher Society and one of the prime movers behind SHARE. "All we've done is create an economic institution complementing the small businesses in this area."

SHARE itself has no financial assets. Instead, it serves as an adjunct loan department to the Great Barrington Savings Bank, one of the last community banks in the region. Depositors at the bank must first designate their accounts as SHARE collateral. They receive 6 percent interest, while the bank charges a 4 percent service fee on the loans. Thus the 10 percent rate.

Both depositor and banker agree that the differential in return over other investments and standard loan interest rates is made up by the positive impacts of the program. One of SHARE's most important criteria for recipients, after demonstrated need and productive potential, is that the business be locally based — employing local people and material, selling to a local market. When SHARE designers first approached the board of Great Barrington Savings, bank president George Adams responded, "These people are doing the job we used to do."

Dave Whitcomb, an executive vice-president who now oversees the bank's role in SHARE, remembers being similarly impressed: "We're Great Barrington's only hometown bank, and we thought it was a very worthwhile venture. We didn't know if it would bust or go well. But we gave it a try."

Since SHARE's inception, more than a dozen local businesses have been given loans. While depositors agree to share the burden of default, all loans thus far have

Please see SHARE next page

**SHARE** from preceding page

been repaid. Moreover, from the banking side, SHARE has attracted some 70 new accounts.

A few of the SHARE loan recipients:

- Sue and Wayne Sellew of Rawson Brook Goat Farm needed to upgrade their cheese-making equipment to meet state guidelines. Their product, known in stores as Monterey Chèvre, was viable; but without credit history a loan looked difficult. SHARE loaned $3,000 to Rawson Brook, which has since expanded production considerably.
- Anson Rutherford-Olds contacted SHARE several years ago needing to update sound equipment for his guitar. He said he earned enough performing at clubs to pay the loan. SHARE officers needed proof. He returned 18 months later with a well-documented list of gigs and payments. His small loan was made and duly repaid.
- Nick and Sallie Van Sant produce high-quality kites in the barn a few steps from their home. A few years ago a major fabricmaker went out of business, offering a 60 percent markdown on stock. SHARE saw the productive potential of the loan, which was paid back in six months. This past year Kites of Four Winds nearly doubled profit rates due to the low-cost fabric.
- Bonnie Nordoff knits specialty clothing at home. Her first SHARE loan ($4,000) bought wool and established credit with a wholesaler. Her second loan ($1,000) upgraded a knitting machine. When Bonnie began to receive work contracts and needed an employee, she approached SHARE for a third loan. She was directed to the bank. Because she had an established credit record, her bank loan was duly processed.

While SHARE loan recipients do not know which depositors have signed up for the program, a monthly newsletter advises depositors on the progress of SHARE-loaned businesses.

"It becomes a sort of cultural experience," says SHARE administrator Susan DeWitt. "People begin to have a sense of the businesses in this area. They might take their kids to see the goats at Rawson Brook Farm or find recipes for goat cheese. So it's connecting at more than financial levels."

The philosophy behind the SHARE program might best be described as "decentralist." It can be found in the thinking of architects Jane Jacobs and Buckminster Fuller, and in the economics of J. K. Galbraith and E. F. Schumacher. The reasoning goes that a centralized banking system with a predominantly urban concentration of capital leads to chronic underdevelopment in rural areas, where inflation, interest rates, and joblessness are not readily soaked up by increased economic activity. The Berkshires and western Massachusetts would seem to be a case in point, having far higher unemployment and lower per-capita income than industrial and high-tech eastern Massachusetts.

"Because all banks put large amounts of deposits in money pools," explains DeWitt, "a local borrower is competing with international corporations to borrow money at our local bank. All we've done is extend the Grandmother privilege — whereby Grandmother used to help the next generation get started in local business."

In part due to the success of the SHARE program, several other such loan programs have sprung up around the country, mainly in rural or inner-city areas. Most developed of these are ARABLE of Eugene, Ore., and Three Rivers SHARE of Pittsburgh. Getting started on a similar model are programs in Cascady, Wis.; North County, N.Y; the PICK program for Midwestern farmers; and the Jubilee fund in Minneapolis-St. Paul.

But in Berkshire County, SHARE's founders view the existing loan program as the first step in a more ambitious plan to promote regional economies. The second and more difficult step will be the issuance of local currency planned for this January. The currency, called "Berkshares," will be readily redeemable in dollars but tied directly in value to a cord of firewood, a plentiful source of energy in Berkshire County. Thus, in periods of inflation or rising energy costs or both, Berkshares would be the preferred currency.

"The key point is that energy is the common denominator of all productivity," explains Robert Swann, who organized a similar experiment with economist Ralph Borsodi 15 years ago. (That experiment took place in Exeter, N.H., and successfully issued a currency tied in value to a basket of commodities.) "The logic then is that you can always count on the value of a currency based on energy remaining relatively stable in value." If all goes well, the plan will take effect this January.

In the long run, Swann and DeWitt hope the experiment might spread to other regions. But for the present, the experiment should have immediate benefits to Berkshire County. Foremost of these will be 3 percent loans SHARE will offer in Berkshares to local businesses for local costs. As Berkshares are redeemable or usable only in the region their usage marks a movement toward self-sufficiency.

"What we envision will happen," says Swann, "will be more and more necessities produced locally because there will be incentive to do it."

S·H·A·R·E

Self Help Association for a Regional Economy
Box 125, Gt. Barrington, MA 01230 413-528-1737

# "OH, I GET IT, YOU ARE THE GOOD GUYS"

## A REAL STORY ABOUT SHARE

by Susan Witt

Jim Golden and I had not met before that morning at the bank. SHAREcroppers, a group of small farmers and coop food club members, had reviewed his loan collateralization request to SHARE for $3,000. The loan would be used for materials to build a barn for Jim's two draft horses. SHARE-croppers' inquiries showed a demand in the area for trained draft teams to work crop land and haul lumber from the forests as horses put less stress on the land and heavy tractor equipment. The application review committee of SHARE's board had checked Jim's personal financial references. Discussion about the project at the board meeting had been enthusiastic and I was told to arrange the loan with the Great Barrington Savings Bank.

The Personal Loan Department of the bank was training a new woman to work with the SHARE program, so Jim, the trainee, Ada—a bank regular, and I gathered to sit at the end of a large table in the south conference room. I had brought eight savings account passbooks of SHARE members to place as collateral against the loan which the bank was to make at our recommendation. SHARE members deposit what they can in their SHARE accounts. Sometimes that is only $100, so it took eight passbooks to make up $3,000 of collateral. Ada asked me to explain the SHARE program to the new woman.

"SHARE stands for Self-Help Association for a Regional Economy. It is a local non-profit corporation formed to help encourage small businesses that are producing necessary goods and services for the Berkshire area in a way that is socially and ecologically responsible."

"Where did you get all those passbooks?" She was an older woman, obviously liked her job and was genuinely curious.

"From members of SHARE. They open accounts and agree that the accounts can be used as collateral for small loans that meet SHARE's criteria."

"But those accounts only earn 6% interest. The same people could be earning 11% interest."

"Yes, but because SHARE puts up 6% passbooks as collateral, your bank has agreed to make small loans for as little as 10% interest charge to the borrower. SHARE members want to make it possible for small farms and cottage industries to have a start without the burden of high financing charges. Members feel the value lost will all come back to them in the future by ensuring that the goods and services which they use are available in the Berkshires."

"Oh, I get it, you are good guys. Is SHARE a special club or something like that?" "No, anyone can just walk off the street and become a member of SHARE by opening a SHARE savings account at your service desk over there."

"You mean I could be a member of SHARE?"

"Sure."

"But," and though her voice dropped to a whisper and she was addresing the question to me, still Jim heard every word, "how do you know *he* will repay the loan?"

"Members of the SHARE board of trustees and an agricultural association have checked Jim's references. He is trusted by his neighbors and the people he works with to work hard and conscientiously. He feels a responsibility to his community and has helped out in town projects. It's a good loan and it will mean that Jim can provide a service much needed by landowners in the area. Just because someone is young and doesn't have assets or a lot of credit references doesn't mean he won't make a dependable borrower. SHARE has a lot of confidence in Jim."

Though I was explaining the program for the benefit of the new loan officer, I began to realize that it was also an explanation for Jim Golden. Though people may read the SHARE brochures before joining, they do not always fully realize that they are part of a program that puts the individual and the interests of the community back into banking and lending. Old habits of thinking about money persist when entering that bank door. When Jim first sat down at the table in the conference room, he grouped the two women of the loan department and me together. We somehow had money or access to money and Jim Golden did not. He bent over the loan documents he was to sign, carefully reading every word to see if there was some trick in this 10% loan. But as the overheard explanation progressed, Jim sat taller and taller in his seat. He came to realize that his new business was not just another case of Jim Golden trying to make it against the odds of a hard world. There was a group of people that wanted his draft horse business to succeed and were giving him a helping hand. He could see it concretely in those eight passbooks.

By that time the bank personnel had caught the spirit of the venture. Usually a demand note loan is paid in one lump sum with regular interest payments on the full principle. Jim wanted to make installment payments on the principle so reducing the total interest charged. But an installment loan with monthly notices would cost more to service. The loan officer trainee found an old blank record book and set it up so that Jim could keep track of his own payments while still keeping the 10% loan. When Jim left the bank he was soaring. He had his loan, but he knew also that he had a lot of people on his side. The meeting had renewed his energy and good spirit to take on the significant work ahead of him.

Two weeks later I had a call from Jim. He and his horses were going to be in a pulling competition to demonstrate the capability of draft horses. I got on the phone to SHARE members who passed the news on to other members. Whole families drove over to Long Hill Farm that weekend. When the big horse with the white mane and his chestnut colored half-sister were hitched to the plow, their heads bowed, their strong shoulders pulling against the taut reins, SHARE folk watched more intently. Their savings were helping build a barn for that pair. In a way, Spike and Rosie were pulling for them too.

*SHARE (Self-Help Association for a Regional Economy), P.O. Box 125, Gt. Barrington, MA 01230, is a southern Berkshire area loan collateralization program. Accounts are handled by the Gt. Barrington Savings Bank, but approvals of loan collateralization rest with the SHARE board of trustees elected by member/depositors. For information about how to initiate a SHARE-like program in your own area, contact the E. F. Schumacher Society, Box 76A, RD 3, Gt. Barrington, MA 01230, (413) 528-1737. A packet of legal documents for SHARE is available from the Society for $10.00.*

*"Perhaps we cannot raise the winds. But each of us can put up the sail, so that when the wind comes we can catch it."*

*E.F. Schumacher*

[From the New York Times, Nov. 15, 1987]

COMMUNITY LAND TRUST
IN THE SOUTHERN BERKSHIRES, INC.
195 MAIN ST. P.O. BOX 276 GREAT BARRINGTON, MA 01230 (413) 528-1737

**Great Barrington**

## A Fund to Help Home Buyers

SEVERAL owners of vacation homes in Berkshire County have joined with a nonprofit land trust to create a low-interest loan fund for residents of this Massachusetts community seeking affordable housing.

"We felt this was one way to address the inequality that allows some people to have two homes while others can't even afford one," said Dorothy Stoneman, who with her husband, John Bell, organized the homeowners. The couple live in the Boston area and own a vacation home near Great Barrington.

Berkshire County's strong second-home market has pushed housing prices beyond the reach of most local people. Modest vacation houses are selling for more than $100,000, and new construction is largely oriented to luxurious vacation condominiums and houses costing $200,000 and up.

The Fund for Affordable Housing was established this year by the Community Land Trust in the Southern Berkshires.

The fund's initial purpose was to assist five families buying homes in Christian Hill, an affordable-housing development in Great Barrington that was sponsored by the trust.

The families had obtained bank loans for a part of the average $80,000 purchase price, but they needed second mortgages to make up the difference. After experiencing delays with a state loan program, the trust set up a revolving loan pool using money raised through local investors.

Early last summer, Ms. Stoneman and Mr. Bell offered to solicit contributions from other part-time Berkshire residents. The couple went through town records to identify owners of second homes, sent out letters and organized meetings. Although it was often difficult to track people down, Ms. Stoneman said the response from those contacted was "fantastic."

So far, the fund has raised nearly $50,000 from about 20 contributors, in amounts ranging from $1,000 to $5,000. This — combined with $53,500 from other sources — provided the Christian Hill buyers with loans at 7 percent interest and enabled them to close on their houses.

Contributors were given the option of getting their money back with interest as the loans are repaid, accepting lower interest or leaving their entire investment in the revolving loan fund, which will continue to be used for similar purposes.

Ms. Stoneman hopes to establish a permanent structure to encourage the continuing participation in the fund of owners of second homes. "Many of them told us they had wanted to do something for the community here, but they hadn't known how to go about it," she said. ■

*JOHN TOWNES*

The New York Times/Fred [illegible]

House in the Christian Hill complex, Great Barrington, Mass.

Green Revolution

VOL. 40 No. 3 SCHOOL OF LIVING R.D. 7, York, Pa. 17402 FALL 1983

# BORSODI'S SEARCH FOR HONEST MONEY

**WHAT** WAS IT that drove Ralph Borsodi at the age of 83 in 1967 to try to launch a world wide non-profit and non-governmental banking program which would provide credit to small farmers in poor countries? And what motivated him a few years later to launch, almost single-handedly, a local currency in Exeter, NH, an accomplishment that brought reporters from *Time* magazine, *Forbes* and many others to interview him in Exeter?

At the end of a long life of promoting, advocating and practicing decentralism, Borsodi said, "Unless the dishonest centralized government monopoly of money can be broken, no significant social reform is possible." Moreover, he saw and predicted the end of the present world wide monetary system which creates inflation, and impoverishes the poor people of the world. It would not surprise him to read the recent articles in the *Wall Street Journal* and every other news magazine (*Time* lead line, "Debt Bomb Threatens World Financial System"). It was perfectly clear to him that the international monetary system was headed for collapse and he guessed that it might be the failure or the inability of the poor countries to repay their debts to the IMF, World Bank, and the banks of the industrialized countries that would trigger massive world wide inflation and finally collapse of the present system. It would only have surprised him that the system has held together as long as it has with only patch work solutions.

It was for all these reasons that he spent the last years of his life and his energy, often at great risk to his health, concentrated on how to make a beginning towards breaking the monopoly of the central government monetary system. All of the schemes which he devised were designed to challenge that system. He had convinced J.P. Narayan, the leader of the Gandhian Sarvodaya movement in India to help him launch the International Independence Foundation, which would have provided investors/depositors with a guarantee against government created inflation, as well as small farmers with low interest loans (high interest rates are today the primary reason for the highest rate of bankruptcy among farmers in the U.S. since the great depression). When that scheme was frustrated as a result of J.P.'s decision to concentrate his energy on working with the relief program in India where the failure of the monsoons had created havoc and starvation in the state of Bihar, Borsodi decided to try to start a small experimental program in India with some of his own money. He left by way of London to initiate this program, but he was forced to give it up when his strength gave out in London and his doctor ordered him to return to the States.

But the problem and the need to make a beginning with an honest money system continued to plague him. He considered writing a book and began extensive research and written notes. But, finally, after two or three years – when he was reading the *New York Times* headline accouncing the increasing inflation – he said to himself, "Why write a book? Everyone writes books and no one pays any attention to them." It was at that point, that he decided to launch what he later came to call "The Exeter Experiment."

He was in California at the time and immediately upon his return to Exeter, N.H., his home, he contacted the president of the local bank, a friend of his, to obtain his ccoperation in the proposed experiment. The bank president agreed to cooperate by having the bank act as a "money changer" and to accept deposits for the experiment. As a "money changer", the bank would simply agree to exchange dollars which Borsodi would provide, for the notes ("Constants," Borsodi called them) which Borsodi would issue. People wishing to join in the experiment would deposit money in the Exeter Bank in a joint checking account which would, then, be kept in Constants rather than dollars. Since Constants were based on a "basket" of commodities and an index of these commodities which Borsodi had developed, they were in effect, protected from inflation. In addition, Borsodi issued Constant notes as well as silver coins and sold them for dollars at the Constant exchange rate.

To everybody's surprise, even including Borsodi, many people bought Constant notes and made deposits in the bank checking account. At the same time Constants began to circulate around the town of Exeter, where restaurants and other businesses accepted them in payment. If these businesses received more Constants in trade than they could use for their own buying needs, the owners could go to the bank and exchange them for dollars at the then going exchange rate. Since dollars were going down in value relative to Constants as determined by the index, those people holding Constants were reluctant to exchange them since they would lose on the exchange. For this reason, and, therefore, Borsodi did not have to keep many dollars on hand at the bank for exchange purposes.

His objective was to invest the dollar deposits in most, if not all, of the commodities in the "basket" (thirty commodities which represented the most important commodities in World trade -- agricultural products, energy, and minerals). He began investing in the most storable commodity available, silver (gold was still illegal for U.S. citizens to buy at that time). Silver, with gold and platinum, was and is, one of the metals which has been traditionally associated with "real" money in the past. Borsodi, however, wanted to eventually invest much more heavily in the other commodities in the basket – especially agricultural commodities such as wheat and rice which are universally used and needed throughout the world. But this part of his scheme would be the most difficult, he knew, because he devised a complicated scheme which would have utilized expert "spot market" arbitrages eventually. But that would involve literally millions of dollars (or Constants) worth of grain and other products.

The Experiment, then, was obviously limited in scope. Unless some large bank, or large corporation would step in and involve itself in helping to launch a new, independent and genuine world, as well as local currency, the Experiment would remain just that, an experiment. Whether Borsodi, really expected the Experiment to expand to a world level, I do not know. But it did not happen and again his doctor told him he would have to give up the very difficult job he had taken on in the Experiment with only a small handful of inexperienced volunteers to help him.

As one of the volunteers helping Borsodi in the Experiment and also involved in the International Foundation attempt, I have continued over the years to search for ways in which this Herculean effort of Borsodi's could be carried forward. In an objective evaluation of the Exeter Experiment, it seemed to me that several aspects of the experiment had been developed successfully and could be duplicated elsewhere. One of these was the strategy of utilizing small local banks as the administrative agent for starting a new monetary system. As Borsodi often pointed out, local banks are not the problem in themselves. The problem is that they have to deal with dollars only and the issuing of dollars is a monopoly of the centralized government controlled system. Local banks provide an important and needed service in accepting deposits, making loans, keeping accounts, and collecting payments on loans.

The second lesson which I think the Exeter Experiment demonstrated, was the interest which people had in using a new kind of currency which was not subject to government created inflation. (As one Exeter citizen put it, "Whose money is funny anyway, his money or the governments?") Local businesses also accepted the money in payment, partly because they knew that customers might go elsewhere if they didn't, partly because some of them, at least, realized that the creation of a local currency would be in their interest, and in any case, they knew that they could go to the bank and exchange Constants for dollars if necessary. Certainly, at this level, the bank involvement helped tremendously to give confidence to the whole project, and the merchants in particular. Further, people seemed to realize that here was money, unlike government money, which was backed by something real – the commodities themselves, all of which were listed on the notes, and they could also see on a week by week, or month by month basis, as the index (or the exchange rate between dollars and Constants) was published, that Constants were gaining in value against dollars. This also increased confidence.

Two years after moving from Boston to Great Barrington, in discussion with a group of like-minded people, we decided that we might make a beginning in the process of issuing a local currency by first capitalizing on Borsodi's demonstration of the value of involving a local bank. But we felt it would be a mistake to initiate this process with a local currency itself. For one thing, we had not proven ourselves to local bankers, they would not necessarily have confidence in us. We would have to create that confidence, and that would mean creating an organization.

Moreover, going back to the original International Foundation concept of Borsodi's, we realized that creating a local currency, in and of itself, was not of tremendous value, unless it could be tied to the purpose of creating greater local or regional self-reliance, and thus be used for decentralizing the present system. After all, this was the major purpose behind the original Foundation, and, in one sense, the creation, or issuing of a non-inflationary currency was important primarily because it would attract investment of dollars into a decentralized framework of development. The fact that out of this scheme would come a local currency was, from the point of view of local development, almost secondary. In other words, if as is presently true all over the world, local deposits in dollars were not sucked out of the local area into the huge metropolitan areas and into the big corporations which can afford to pay the highest interest rates, then even dollars could be made to serve a more useful purpose.

Out of this thinking grew the SHARE program which stands for Self-Help Association for a Regional Economy. Like the Exeter Experiment, the SHARE program utilizes the administrative services of a local bank. Like the Experiment, depositors put their money in a joint account at the bank. Unlike the Experiment, but like the International Foundation, the primary purpose of this money (dollars) is to collateralize small loans to local producers (farmers, small businesses, cottage industries, etc.) What is most unique about the SHARE program is the criteria which are used by the SHARE loan committee for making a loan. The primary criteria, aside from sound financial considerations is that the loan will increase local self-reliance, but in addition the criteria include ecological considerations as well as encouraging distribution of profits to workers and to the community as a whole. What are the advantages of the SHARE program?

1. Although the bank makes the loan and collects payments, the decision on the loan is made by the SHARE board elected by the members.
2. Low interest to borrowers – about two-thirds the going bank rate. This is possible because the SHARE depositors take the risk and the bank only receives a fee for its administrative services.
3. Depositors receive the same rate as the usual 90 day notice savings deposit account (about 6%).
4. Depositors are assured that their money is being used locally to improve or encourage the local economy, and this helps them eventually also.
5. A system of peer Associations (Agriculture, Small Business, etc.) is established which first approve the loans and secondly monitor them and provide technical assistance if necessary. This system provides the best guarantee against bad loans.

But we recognize that the SHARE program, which is very much like a Credit Union, is only the first step towards creating a local currency and thereby an independent local economy. It's major advantage, from this perspective, is that it is building a base, a constituency of depositors in the community and confidence in community – as well as developing a strong working relationship with the local banks, merchants and farmers in the area.

**– Robert Swann**

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**Robert Swann** is Executive Director of the Schumacher Society, Great Barrington, Mass. He was closely associated with Ralph Borsodi in the creation of the International Independence Institute, chartered in Luxembourg.

E. F. Schumacher Society
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## Prepared Statement of Wilma McDaniel, Director of Operations, WAMY Community Action, Inc.

### SMALL BUSINESS VENTURES PROGRAM

I. Introduction

The Small Business Ventures Program is a component of WAMY Community Action, Inc., funded through the Community Services Block Grant (CSBG), which is administered by the Division of Economic Opportunity, N. C. Department of Natural Resources and Community Development. Since late 1983, $220,041 in Small Business loans have been made available to 30 low-income entrepreneurs as a result of utilizing $159,709 CSBG dollars either to secure private loans or to make direct loans.

These loans have made possible an avenue for entrance to the business world which would not otherwise have been available for these low-income entrepreneurs.

II. Organization History

WAMY Community Action, Inc., is a private, non-profit corporation, chartered in the state of N. C. in 1964. The agency is designated as a 501 (C) (3), organization. It's basic purpose is "...to advance the general welfare of the individuals constituting the counties of Watauga, Avery, Mitchell, and Yancey in North Carolina, including...the economic ingredients of such individuals."

Governing officials of the four-county area designated the agency, upon incorporation, as a community action agency. It is governed by a twenty-four member Board of Directors.

Throughout its twenty-four year existence, WAMY Community Action, Inc., has operated a wide range of programs serving low-income people. Initial agency funding was an administrative grant from the N. C. Fund. Neighborhood Youth Corps (NYC) and Head Start programs were funded shortly thereafter. Manpower funding has evolved from the original NYC programs to CETA and currently to the operation of programs of the Job Training Partnership Act.

Funds for administrative purposes and general community programming were first received from the Office of Economic Opportunity in early 1965. That funding continued throughout the life of OEO and throughout the years of the Community Services Administration. The agency currently receives CSBG funds through the Division of Economic Opportunity, N. C. Dept. of Natural Resources and Community Development.

In recent years, the agency has moved as far as possible from service-oriented programs, which often create dependency, toward programs which promote self-sufficiency.

## III. Demographic Data

Located in the Northwestern portion of the state, the agency service area is rural. Boone, the county seat of Watauga County, is the largest town, having a resident population of approximately 12,000 and an additional student population of approximately 12,000. Six smaller towns are located within the area.

The economy of the area is depressed. Of a total of 75,437 area residents, 14,556 or 19.3% have incomes that fall below the poverty level.* The current unemployment rate ranges as high as 7.8% within one county of the area.

The mountainous terrain prohibits large-scale agricultural endeavors. The single cash crop of any significance has traditionally been tobacco. This crop can be raised on relatively small plots, without the use of mechanical equipment, and with relatively high yields. Many grow tobacco to supplement their other income.

Industrialization has been hampered by lack of interstate highways within the area. Only seven small manufacturing concerns are located in the area, with an average employment of less than 200 persons. In addition, several small mining operations are located in Mitchell County.

The single largest employer in the four-county area is Appalachian State University. The majority of professional positions there are filled by persons recruited from other areas, with non-professional positions staffed primarily by students and spouses of the professional staff.

Tourism has been the industry of major growth during the past two decades. The cool summer months, the brilliant fall color, and the heavy winter snows all attract large numbers of

*1980 Census of Population

**N C Preliminary Civilian Labor Force Estimate, Feb 1988 visitors to the area. With six ski resorts now located in the area, skiing has become a major attraction in recent years. Jobs created by the resort industry, however, are usually seasonal and consistently offer low wages. The nature of tourism-related employment and the accompanying inflated cost of property and consumer goods combine to lower the standard of living of most full-time residents.

## IV. Resident Characteristics

Natives of this rugged mountainous area are a proud people. Their families have often resided in the area for several generations.

Educational levels are low for the general population; for low-income residents, an even greater percentage of the population has little education. Of area residents above 25 years of age, 31.5% have an educational level of 8 years or below. Few people with less than a twelfth grade education have received employment training in any area other than farming.

The 19.3% poverty level is high, compared to a state-wide average of 11.6%.

Many natives reside in rural, isolated areas. While change is inevitable and, in many cases, necessary to improve the quality of living, this isolation has made many long-time residents reluctant to accept change. Likewise, they are frequently hesitant to accept the outside help that is needed to bring about positive change.

## V. Organization Experience Relating to Economic Development

An early agency endeavor in the area of economic development centered around crafts. A crafts component of the OEO-funded program was initiated in 1966. Agency staff provided assistance to low-income participants in development skills to provide a variety of the traditional mountain craft items. A cooperative was formed to enhance marketing efforts. Early in 1973 this cooperative, Blue Ridge Hearthside Crafts, was spun off to become totally independent. Today, the cooperative with its membership of more than 300 craftspeople serves an international market.

During the years of OEO/CSA, funding officials placed major emphasis on numbers of persons served, even though to reach large numbers of clients meant that individual benefits were low. Hence, to have major impact on the lives of clients in terms of eliminating causes of poverty was difficult, if not impossible, to achieve.

With the approval of state CSBG funding officials, WAMY Community Action, Inc., began to reduce the number of clients served in February, 1982.

During the 1982 program year, efforts were concentrated on promoting self-sufficiency of clients. The lack of available jobs within the area prompted those involved in program planning to design a self-employment component. Through this component, 200 families became involved in small projects designed to produce income.

Small grants, averaging $200 each, were provided through CSBG funds. Projects included pig production, tobacco crops, crafts, roadside produce stands, truck farming, plus a variety of others. The overall project goal was to increase participant income by 15%. The project evaluation, gathered from data maintained by clients, showed the overall average income increase to be 18.6%.

Analysis of evaluation data for the 1982 program year resulted in two major changes for 1983: (1) the number of participants in the Self-Employment component was reduced to 60, while the income increase goal was raised to 25%, and (2) a new program component, Small Business Ventures, was initiated.

To encourage self-sufficiency, the agency expanded the Self-Employment Project in 1986 to include loans as well as grants. Clients whose income fell below 80% of the poverty level continued to be offered grants, while those whose income was between 80% and 100% of the poverty level were offered loans.

It was a source of satisfaction to agency staff that some of the clients eligible for grants preferred to accept loans. Since the inception of the loan program $14,422 in loans has been approved; $6,079 (42.2%) has been repaid; $2,284 (15.8%) has been lost, and current balances are $6,059 (42%).

The Self-Employment Project component continues, with 275 unduplicated participants during program years 1983 to 1987. Of these, 185 clients have increased their incomes by 25% or more, and 68 families have raised their income above the poverty level. The letter which follows (page 7-A) was recently received from a current client.

March 28, 1988

To Mrs. Betty Whitson & WAMY Organization:

I am writing with deep-appreciation for the assistance your organization has provided for me. God only know's how it has lifted my spirits and boosted my morel. Your assistance has provided advertisement, chemicals, & back-up equipment. In automotive cleaning, all of the above are vitally important. With this type of inspiration it brings out the best in people. I hope and pray for continued success for your organization, and I vow to continue to do my very best with what God has blessed me with. Thank's so very much once again.

Very Truly Yours,
Tony Goodman
Owner & Operator of
Professional Automotive Cleaning
Hilltop Union 76
Burnsville N.C. 28714

## VI. Small Business Ventures Program

### A. Analysis of Need

The need for the Small Business Ventures (SBV) program results from two factors:
(1) the lack of jobs within the area, and (2) the difficulty of obtaining small business loans at reasonable rates with particular difficulty encountered by low-income persons.

As previously discussed, lack of manufacturing within the area coupled with a terrain and climate inappropriate for large scale agricultural endeavors limit employment opportunities for area residents. The opportunity for small business ownership is, consequently, more important to this area than to areas where jobs are plentiful.

Historically, low-income persons have encountered difficulty in obtaining loan funds. For those who have been able to borrow money, exorbitant interest rates have been charged. Thus, the high-risk borrower has been forced into a position of even higher risk.

This program provides the opportunity for individuals, primarily through their own efforts, to climb above the poverty level. Individuals who themselves improve their economic status also improve their self-image. This in turn builds independence and prevents, or breaks, the pattern of dependency which often results from human service programs.

Program need is evidenced by the large number of program inquiries which have been received since the inception of the SBV program. Program staff receive an average of eight inquiries per month.

B. Program Objectives

The purpose of the Small Business Ventures (SBV) program is to enable low-income persons to enter business for themselves--or to assist faltering small businesses. The program was designed as a loan program rather than a grant program with two factors in mind: (1) the enhancement of client dignity by a program which provides for repayment of assistance received, and (2) the ability of the program to perpetuate itself because of the repayment element.

The program also offers management and operational assistance to program clients which will enhance their chances of being successful in their chosen business. Approval of loan funds is considered to be only an initial step within the program design. The need for a wide range of assistance which includes record-keeping and accounting, marketing, credit management, tax preparation, appropriate licensing, etc., is well-documented.

The primary objectives of the SBV program are:

1. To provide low-cost funds for new or faltering businesses.
2. To provide operational and management assistance to program clients.
3. To create new ownership opportunities and new jobs within the service area.

## C. Program Design/Implementation

The SBV program has been operational since late 1983. During early program phases twenty-eight loans were funded; two recent program loans bring the total number of clients in the program to 30.

Several important lessons have been learned through circumstances and mistakes of early program activities and during operation of the program to date. Previous mistakes and learning experiences have already proven beneficial and are anticipated to lessen chances of similar mistakes in future efforts.

1. Application Procedures. Initial client applications are accepted by the Small Business Assistant. Initial information obtained verifies client eligibility and identifies the small business area the client wishes to pursue. Client education or experience relative to the activity, plus client resources available for the effort, are also identified.

An initial feasibility study is conducted to determine appropriateness of the business in terms of client capability and market demand for the product or service. Those applications not appearing feasible are eliminated at this point if the Program Advisory Committee concurs with the staff determination.

A business plan is prepared for those applicants whose business idea appears feasible. A sample business plan is included as Appendix A.

Not all business plans adhere to a strict format. The following areas are investigated and developed, as appropriate: projected income level, estimated expenses, assets required, market survey, location study, merchandising plan, break-even analysis, risk analysis, and accounting system to be utilized.

2. Committee Action. Completed business plans are presented to the Program Advisory Committee for action. That committee is composed of representatives of the agency's Board of Directors, senior staff, ASU College of Business, and private business. A local attorney serves on the committee, providing legal insights for the protection of both the agency and program clients.

The committee determines the amount and term of the SBV loan for approved clients. The committee may allow a new participant an initial period, not to exceed six months, during which interest payments only are required. Also, during the life of a loan, an interim period up to six months may be granted during which payment of principal is not required.

The flexibility which can be exercised by the committee is very valuable to the new entrepreneur or the one who later develops a problem situation.

Appendix B is a listing of the 30 small businesses receiving committee approval for participation in the program.

3. Release of Loan Funds.

Release of loan funds is controlled by agency staff. An original program error allowed for the initial release of the total approved amount. As a result, some funds were not utilized for the purposes approved. Currently, funds are released to the client upon documentation of need for approved use or purchases.

4. Securing of Loan Principals.

Under the original program design, loans were actually made through a private lending institution, with CSBG funds placed on deposit in a non-interest bearing account to secure the principal loan balances. Clients were charged interest at the national prime lending rate minus 3 1/2%. Interest charged to the client was retained by the lending institution as its fee for loan origination and servicing.

At the end of each month, an amount equal to total payments on principal balances was transferred to an interest bearing agency account.

In late 1987, the program design was modified. The contractual agreement with the lending institution was ended by mutual agreement. All outstanding loan balances were assumed by WAMY, with all future loans to be made directly by the agency. The current interest rate for new or supplemental loans is 6%.

5. Provision of Staff Assistance.

Agency staff are available to assist the small business client in all areas of business start-up, operation, and management.

Provision of staff assistance is not without problems. Program clients are sometimes reluctant to follow advice received. Often, clients are not able to fully comprehend business principles which apply. Agency staff are not able to enforce adherence to their counsel, nor would that be desirable. Thus, the building of client confidence is an important factor.

## D. Critical Issues and Problems

The goal of the SBV Program is to break the "cycle of poverty" in which many individuals in our society have become entrapped. It is not to be assumed that small business ownership provides the answer for the majority of this unfortunate population. Previous program experience has identified several areas in which caution must be exercised.

### 1. Client Selection.

The original program intent was to make available business assistance--including loan funds--to individuals who otherwise could not obtain such assistance. That intent will continue.

An original error in program design was the omission of client credit investigation. Program developers did not wish a poor credit history to deny potential clients the opportunity of being accepted into the program. The program was not designed for those persons capable of obtaining loan funds from conventional sources. Although the original philosophy continues, we have learned the value of careful client selection.

During initial program phases, the above point was proven by two approved clients. The first disappeared shortly after receiving loan funds, the second was not able to limit his expenditures to the amount of assistance provided. The first client has not yet been located; the second was jailed for writing bad checks.

Both credit and character investigations are vitally important. Occasionally, desperate circumstances, as opposed to poor character, can be responsible for poor past credit history. We have learned, however, that such investigations must be made.

Haste in original client selection also led to errors in early program stages. Not all program applicants are sincere in their desire to become entrepreneurs. Three original program clients did not possess the stamina and dedication needed to develop their businesses to the fully operational stage. More careful screening and investigation could have predicted and prevented this problem. The client who is willing to gather information and assist in the development of his business plan--thus expending significant time and energy prior to actual approval--is most likely sincere in his desire to develop a small business.

### 2. Staffing

Program staffing is a critical factor to the SBV program. Staff working with the low-income entrepreneur must, on the one hand, have expertise and knowledge relating to a wide variety of business techniques and principles. On the other hand, staff must have the ability to relate to the disadvantaged client in a manner that will not threaten the dignity of the client.

Additionally, staff must possess persuasive abilities which will influence the client to follow advice for which, often, he does not comprehend the importance.

Educational levels of low-income entrepreneurs are often low. Hence, it is vitally important that program staff maintain client trust and effective, open communication on a level meaningful to the client.

The rare combination of qualities required for the SBV Assistant is most difficult to locate and extremely critical to client success.

3. Accuracy and Completeness of Client Records.

In order to evaluate the progress of any business, complete and accurate records must be maintained. The low-income entrepreneur often does not have the knowledge necessary to prepare and maintain financial records. This problem can be overcome through staff assistance. A problem not so easily overcome is that of the client who does not choose to maintain accurate records. For some, the fear of losing public assistance outweighs the benefits of truthfulness; for others, the desire to avoid taxation prevents accuracy.

There has been some difficulty in evaluating program success due to these problems.

4. Undercapitalization.

Originally, the program was designed to provide business loans in an average amount of $5,000 per client. It was soon evident that this amount was often not sufficient to establish a viable business. Eight original clients have been granted supplemental loan amounts. Through the granting of supplemental loans, the average loan amount for the program has risen to just over $7,000.

E. Program Results

Program statistics are attached as Appendices C, D, and E. Analysis of statistics show the following significant points:

46% of businesses remain active under original client ownership

6% of businesses are operational under new ownership

30% of businesses have failed for various reasons

10% of approved businesses were never developed to the operational stage

8% of businesses not currently operating within area

32% of original loan funds have been lost

42% of original loan funds are currently receivable

30% of original loan funds are on hand

(4% interest has been earned on original amount)

Each $100 of loan funds placed in service has resulted in $167.47 being made available for use. Loan repayments plus interest earned has made the increased amount available.

= Since inception of the program repaid funds have been utilized for two (2) new loans and supplemental loans to eight (8) original clients.

= Eight clients have risen above poverty level, based on program information supplied by clients.

= Two clients have started second businesses, while continuing their original business.

## VI. Summary

We believe the concept on which our Small Business Ventures program is founded to be most worthy. For a certain segment of the low-income population, small business ownership can provide the avenue by which to rise above poverty level.

The successful creation of new small businesses bring benefits to the community at large: a broadened economics base, additional products and services, and the creation of new jobs.

Our program has not been without problems. We have made certain mistakes. We have, however, learned from our mistakes and hope that others who might undertake similar efforts would benefit from our experiences.

We strongly support the philosophy upon which our program was designed: "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime."

APPENDIX A

# BUSINESS PLAN

"JOE DOE"

APPAL MOUNTAIN TREE CARE

Prepared by:
James Latendresse
August 14, 1984

## Summary Page

| | |
|---|---|
| Amount Requested: | $6000 |
| Pay Back Period: | 5 years |
| Monthly Payment: | $120 |

Purpose:
To purchase equipment to allow for the expansion of an existing tree care business serving Watauga and the surrounding counties.

Small Business Specialist Recommendation: Approval

Comments:
"Joe Doe" started this business on a part time basis out of the back of a pick-up. Since its inception in 1982, Appal Mountain Tree Care has slowly, steadily grown. This growth has been limited however due to lack of financial resources, despite the fact that "Joe Doe" has drawn only minimal income from the business, reinvesting the majority of any surplus back into equipment for the operation. Approval of this loan request will give this business the where with all to become the only locally owned and operated, fully equipped professional tree care business in this area. In turn, in addition to raising the applicant's income above the poverty level, it will allow expansion of the business to the extent that it will provide full time employment to one additional individual and part time for up to four others. Joe has shown perserverance with his business. He has met all his previous financial obligations responsibly. I recommend approval of this loan request.

## Funds Requirement

### Equipment

| | |
|---|---|
| **Custom built Box Body:**<br>With tool boxes, which will be mounted on "Joe Doe's" 1-ton Ford truck.<br>A hydrolic system to raise the dump body.<br>This box body will be custom made locally. Joe is able to secure materials (steel) for the job at wholesale. A similar arrangement of equipment is manufactured and installed by Goforth Industries, Inc. of Shelby, N. C. For a unit with less features than the one Joe is having built, the cost is $6150. Joe is therefor saving 35% off this price. Joe has researched this equipment package thoroughly. | $4000.00 |
| **Miscellaneous Small Tools:**<br>See attached list giving model number, description, and price. | $1000.00 |
| **Used 1/2 ton FF Chevy Pick-up** | $1000.00 |
| | $6000.00 |

## "Joe Doe's Business Plan

"Joe Doe's" business is expanding. Word of mouth is one of the best forms of advertising in the mountains. People ask other people - "Who do you know that does quality tree work?" Word of mouth advertising is geometric in its effect - one person tells two people who each tell two people, etc.

At this time, Joe does not have either the equipment or labor capabilities to meet this growing demand; growing because of his excellent reputation and his growing capabilities. Joe currently has for equipment; (1) a Ford 1-ton truck, (2) a Toyota 3/4 ton pickup, (3) a used chipper, (4) various miscellaneous tools. This equipment limits Joe to working one crew, himself, and a varying number of part-time people. The majority of this loan request is for the following equipment:
(1) a truck body to hold chips from the chipping of brush and small limbs, (2) a hydrolic system to raise the truck body, dumping out the chips. The sale of chips, what once was brush that Tom had to haul away and discard, has now become a secondary source of revenue for his operation; not to mention the sharply increased efficiency. However, the chips are time consuming to unload and difficult to haul with tools carried loose in the same compartment. The dump body Joe has designed has side, separate tool compartments.

A basic safety rule in tree work is: "Never work alone." Joe, therefore needs a full time person to work with him; one that is available every day. While the position could be and is being filled by a number of part time employees, their availability is not always assured. If is not able to get an employee on a given day, he can both lose a job and damage his reputation.

Joe's plan is to hire a full time employee in the spring and develop the ability to run two crews at once. This is going to require an additional pickup to carry crew and tools. Joe has located a very sound 1/2 ton 1977 Chevy with a rebuilt engine and extra leaf springs. The cost of this truck, including sign on truck, is $1000.

Additional crew members will require additional small tools; additionally, there is some equipment that to date has not been affordable or has worn out. This equipment need cost is $1000. See list.

| Quantity | Description | Price |
|---|---|---|
| 1 | 1/2" Drill | $230.00 |
| 1 | Long arm Pruner Head | 58.00 |
| 2 | Short Arm Pruner Heads | 112.00 |
| 3 | 1/2" Climbing Lines | 180.00 |
| 1 | 5/8 Lowering Line | 136.00 |
| 1 | Hand Winch | 135.00 |
| 2 | Pole Saw Heads | 44.00 |
| 1 | Climbing Sadle | 49.00 |
| 3 | Japanese Pruner Saws | 51.00 |
| | | $995.00 |

In that it is September, Joe is entering the end of the 1984 season. Revenue drops off in November. However, Joe does have both tree work and carpentry work lined up for this winter. The plan is to manufacture/ purchase the equipment for next season now and hire the full time employee in March of 1985. Joe is confident that he can cover the payments through the slow winter months.

## Marketing

As previously mentioned, word of mouth is a major form of advertising for Joe's business. To increase awareness of his business further, has developed a brochure (attached). Joe plans to distribute this brochure in areas like Linville Ridge. Additionally, he is developing proposals for major jobs that will generate additional sales.

## Competition

While there are several tree service "businesses" in the Boone area, none of these are comparable in ability or reputation to Appal Mountain Tree Care. George McKee is in the tree care business in Blowing Rock. However, he has a reputation of being unaggressive in expanding his business and does not have a chipper, a significant tool in this business.

## Financial Evaluation

**Revenue:**
Tree care is a seasonal business, with the majority of income coming in the months of March through October. In those months, in the most recent 12-month period, revenue averaged $2000. In the remaining four month period, revenue averaged little over $100/month. Based on recent totals, on a monthly basis, revenue in the coming twelve months will be an average 30% greater than it was in the same month a year earlier.

**Expenses:**

**Labor:**
This expense averages approximately 33% of revenue.

**Vehicle and Equipment Expense:**
These expenses average approximately 33% of revenue.

**General and Administrative Expenses:**
Average $200 monthly

## Projections

During the 8 month tree care season, "Joe Doe's" business should have funds available for debt service of: $5472. During the remaining 4 months money will either be earned on tree care or carpentry work.

| Projections - Monthly | August-Oct, 1984<br>March-Oct, 1985 | | |
|---|---|---|---|
| Revenue | $ 2600 | x 8 = | $20,800 |
| Labor | 858 | x 8 = | 6,864 |
| Machinery Equipment | 858 | x 8 = | 6,864 |
| General and Administrative | 200 | x 8 = | 1,600 |
| Total Costs | 1916 | x 8 = | 15,328 |
| Net Income | $ 684 | | $ 5,472 |

Joe's current debt service obligations total approximately $300/month. This will drop to $200/month when the 1 ton truck loan from W S & L is paid off in November of this year. This loan request will add approximately $120 to this amount. Total debt service over the next 12 months, given this loan is approved, will be $4140, while funds available for debt coverage will be, conservatively $5,472. This figure is based on zero income 4 months a year.

(Projections)

Joe calculates bids for jobs on the basis of estimating his labor cost and multiplying it by 3. As Joe's volume increases, the fixed over-head of $200/month will become smaller relative to total revenue, increasing the business' and Joe's income.

I am confident that Joe will be able to meet all his existing and proposed debt obligations in a timely manner.

## Employee's History

A very positive thing about Appal Tree Care is that it provides employment for individuals in addition to "Joe Doe".

In September of 1982, Joe hired his first part time employee to act as a "ground person".

In the fall of 1983 Joe hired an additional part time employee, Robbie Oats. Depending on the job, additional part time employees are hired.

Right now Joe has three part time persons working with him. The acquisition of the additional equipment will allow Joe to expand his operations and provide employment for one person on a full time basis (in addition to himself) and four others on a part time basis.

## ADDITIONAL HISTORICAL NOTES

The one-ton Ford truck was financed by Watauga Savings and Loan ($2500 - 18 months). To date 15 payments have been made - all of them on time. Balance on the loan is $466.26.

In February of 1984, "Joe Doe" purchased a 1984 Toyota 3/4 ton pickup. The vehicle was purchased with $500 down, $7000 financed for 48 months by NCNB. The monthly payment on the truck is $195.30. To date all payments have been made on time. The reason this truck was purchased was: 1) the one ton truck gets between 10 and 12 mpg. It was very costly to bid jobs in it. Additionally, driving it as a standard vehicle would cause rapid deterioration of the vehicle.

2) A reasonable used vehicle could not be found for $500 - the amount put as a downpayment on the Toyota - with this truck, Joe has an economical, dependable vehicle to meet the business everyday needs.

In April of 1984 Joe purchased a wood chipper for $2200. His father, a retired employee of Dayco Rubber Corporation in Candler, N. C., lent him the money for this piece of equipment. This piece of equipment has proved very valuable to the company. It speeds time hauling away brush, adding to job efficiency. Additionally, the chips are sold for between $25 and $45 per load.

## Tools Requested: Under Loan Proposal

| | |
|---|---|
| 1.- Makita - 7.5 amp 1/2 drill "Whole Haug". This drill will be used as a power source to turn a 50.7 auger when root feeding trees and during cabling and bracing operations. I use two wood augers for cabling and bracing 18" x 5/8" dia for small work and 30" x 3/4" dia. for large work. A powerful drill is needed to drive these bits through hardwoods. | $230.00 |
| 1 - HKP-RD Long Arm Pruner Head for 16' Pole clip. Presently have snap cut pruner heads which are not adequate for long poles. | 58.75 |
| 2 - HKP-QP Short Arm Head for 12' pole pruner Need to replace or use in conjuction with present 12' pruner to aid in Class-A type pruning operations - HKP pruners cut in both directions and leave a closer cut which promotes proper healing of the tree. | 112.70 |
| 2 - 12' Pole saws - need during pruning operations | 44.00 |
| 1 - Climbing saddle - need to begin training employees for climbing skills. 1 Medium Klien Tree saddle | 49.00 |
| 3 - 1/2" Safety Blue Climbing lines - to replace cut and worn climbing lines 60.00 ea. | 180.00 |
| 1 - 5/8" 10,000 lbs. Lowering Line - To use in conjunction with presently use 3/4" 12,500 lowering line. | 136.00 |
| 1 - 3/4 ton Hand winch with clutch - presently borrow from a neighbor - Needed for pulling heavy loads, i. e. loading large logs and pulling over leaning trees. | 135.00 |
| 3 - Japanese Prunning Saws - 3 @ $17.00 ea. - use for Class A pruning. | 51.00 |

Appendix B

## SMALL BUSINESS VENTURES FUNDED

Coffee Service

Caterer

Sawmill

Cleaning Service

Garage (2)

Wooden Toys and Crafts

Electrician

Pottery, Stained Glass

Garage, Body Shop, Car Restoration

Jewelry Sales

Home Receiver Systems

Service Station

Food Services

Solar Contractor

Tile Setter

Vegetables/Flowers

Day Care

Photography

Crafts

Art Supply

Shrubbery Sales

Tree Care

Seafood Market

Bed Canopies

Herbal Product Sales

Stuffed Animals/Pajama Bags
T.V. Repair (2)

Appendix C

## SMALL BUSINESS VENTURES PROGRAM

3/31/88

OF 30 BUSINESSES:

| | |
|---|---|
| 14 | Currently active |
| 1 | Temporarily inactive |
| 2 | Businesses sold |
| 1 | Owner moved from area |
| 4 | Failed due to client health |
| 5 | Failed |
| 3 | Never started |

OF 30 CLIENT LOANS:

| | |
|---|---|
| 4 | Partial balances forgiven |
| 6 | Loans lost |
| 6 | Loans paid in full by client |
| 1 | Client in bankruptcy |
| 13 | Currently active loans |

Appendix D

SMALL BUSINESS VENTURES PROGRAM

FINANCIAL STATEMENT

3/31/88

| | | |
|---|---|---|
| Grant Funds Received | $159,709.00 | |
| Interest Income | 6,435.86 | |
| Other Income | 1.00 | |
| | | $166,145.86 |
| SBV Loans Receivable | 66,904.88 | |
| Funds on Hand | 47,436.52 | |
| Loans Lost | 51,791.96 | |
| Misc. Costs | 12.50 | |
| | | $166,145.86 |

Appendix E

## SMALL BUSINESS VENTURES PROGRAM

### Funds Utilization Statement

3/31/88

**Reinvestment Statement:**

| | | |
|---|---|---|
| Total Funds Loaned to Date | $220,040.67 | |
| Funds Available 3/31/88 | 47,436.52 | |
| Total Funds to Use | $267,477.19 | |
| Less Grant Funds Received | $159,709.00 | |
| *Second Cycle Funds Generated | | $107,768.19 |
| Funds in Excess Account | $ 47,436.52 | |
| Second Cycle Funds in Service | 60,331.67 | |
| *Second Cycle Funds Used or Available | | $107,768.19 |

**Utilization Statement:**

For each $100.00 of Grant Funds Received, there has been $167.47 placed in use or available for use.

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* Includes Interest Income